20TH CENTURY
BOOKKEEPING & ACCOUNTING
(REVISED)

COMPLETE

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20th Century Bookkeeping and Accounting

SIXTEENTH EDITION

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PREFACE

This text has been written to give students an understanding of bookkeeping principles and procedures. The discussions and illustrations develop the subject from the point of view of the beginner. Consideration is given both to the *reason* for bookkeeping procedure and to the *method* of applying it.

Fundamental accounting principles are developed as a result of *reason* and not *rules*. When the student understands the reason for a process, he will not need to memorize formulated rules. He may formulate rules for his own guidance, but they will be based on reason.

Arbitrary rules such as "Debit values received and credit values parted with" may be easy to apply in certain cases but in others they can not be applied readily and may lead to wrong conclusions. Only an understanding of principles makes it possible for a student to advance satisfactorily in bookkeeping knowledge.

The equation "Assets = Proprietorship" is used as a basis for the beginning lessons. When the student learns the method of recording increases and decreases in assets so as to show their effect on assets and proprietorship, liabilities are introduced. Thereafter the equation "Assets = Liabilities + Proprietorship" is used as a basis for recording transactions.

Only one phase of bookkeeping is presented at a time, thus permitting the student to learn as he advances. The discussion in connection with the development of each phase of the subject relates to practical transactions with which the student is familiar. Business conditions are not changed to fit the theory but the theory is made to fit business conditions.

No attempt is made in this text to draw a distinct line between bookkeeping and accounting. There may be a distinction between the work of the bookkeeper and that of the accountant but the principles applied by each are the same. The bookkeeper records the transactions so that the accountant may correctly interpret their effect. Both the bookkeeper and the accountant must understand the effect of each transaction on the property and property rights of the business.

Throughout the text the lesson plan includes

(1) Brief, clear discussions of bookkeeping methods and principles.

(2) Accurate illustrations showing the application of the discussions.

(3) Short exercises which enable the student to apply the principles and methods to business problems.

The short exercises are supplemented by practice sets. The purpose of these practice sets is to summarize and correlate the various phases of bookkeeping. Furthermore, through the completion of a practice set the student can measure his understanding of the subject and the instructor can know that the student understands it.

The transactions for the practice sets are provided in two forms.

(1) Memoranda of transactions.

(2) Business papers.

The practice sets in which the student makes his record from memoranda of the transactions are a part of the text. The practice sets in which the student makes his record from business papers are separate from the text because it is not practical to print all the business papers in the text.

If practice sets containing business papers are to be worth while, the transactions must be based on the papers. The papers must not be used simply as supplementary records but as the authority for the bookkeeping entries. For this reason, the text does not provide transactions for the sets in which business papers are used, as a pupil might then complete the transactions from the memoranda and thus make the vouchers useless. If the instructor desires to use the separate sets without business papers, printed memoranda of transactions can be secured.

The federal government is interested in accounting records because of the tax assessed on the net income of a business. It has been necessary for the Treasury Department to rule on the effect of certain transactions on net profit. These rulings are followed in both the text discussion and the practice sets. This qualifies the student to record transactions so as to provide information which will conform to the Treasury ruling.

The procedures in this text are based on the methods used by good accountants. They do not reflect theoretical opinions but rather practical experience. The accounting terms and account titles are those used in modern accounting practice. Other terminology may seem preferable to some, but the student will come in contact with actual business conditions and will need to understand the terms commonly used.

The authors wish to thank the many teachers, bookkeepers, and accountants who have so kindly offered suggestions for presenting the information in this text. Bookkeepers and accountants were consulted to insure information consistent with modern accounting practice. Teachers of bookkeeping were consulted to insure a presentation most satisfactory to the student and to the teacher.

THE AUTHORS.

TABLE OF CONTENTS

CHAPTER		PAGE
	To the Student	1
I	Property and Its Ownership	3
II	Increases and Decreases in Proprietorship	15
III	The Journal and Journalizing	29
IV	The Ledger, Posting, and the Trial Balance	35
V	Sales for Cash and on Credit	47
VI	Purchases for Cash and on Credit	59
VII	Investments and Withdrawals	70
VIII	Working Sheet, Balance Sheet and Profit and Loss Statement	86
IX	Closing the Ledger	97
	Practice Set No. 1, Without Vouchers	109
X	Purchases Journal and Sales Journal	115
XI	The Cash Book	124
XII	The General Journal	135
XIII	Supplies, Insurance and Equipment	140
XIV	A Model Set	153
XV	Business Forms and Vouchers	173
	Practice Set No. 2, With or Without Vouchers	188
XVI	Avoiding, Locating and Correcting Errors	189
XVII	Notes Receivable and Notes Payable, The Note Register	197
XVIII	Interest Expense and Income	212
XIX	Cash Discount and the Columnar Cash Book	222
XX	Work at the Close of a Fiscal Period	233
	Practice Set No. 3, Without Vouchers	241

CHAPTER		PAGE
XXI	Partnerships	247
XXII	Buying and Selling Merchandise	261
XXIII	Commercial Drafts and Trade Acceptances	275
XXIV	The Discount and Transfer of Notes Receivable	287
XXV	Controlling Accounts	296
	Practice Set No. 4, With or Without Vouchers	312
XXVI	Deferred Charges and Insurance Register	313
XXVII	Fixed Assets, Reserves and Fixed Asset Register	322
XXVIII	Accruals	332
XXIX	Balance Sheet and Profit and Loss Statement for a Partnership	344
XXX	Consignments	361
XXXI	Organization of a Corporation	373
XXXII	Opening and Closing Entries for a Corporation	384
XXXIII	Books of Record Peculiar to a Corporation	401
XXXIV	Accounts Peculiar to a Corporation	409
XXXV	Columnar Records	419
	Practice Set No. 5, With or Without Vouchers	430
XXXVI	Balance Sheet and Profit and Loss Statement for a Corporation	431
XXXVII	Land and Buildings	444
XXXVIII	Accounts for Manufacturing	452
XXXIX	Departmental Purchases and Sales	461
XL	Comparative Reports	473
	Alphabetical Index	485
	List of Illustrations	489
	List of Exercises	490

TO THE STUDENT

You can find no better entrance to the business world than through a knowledge of bookkeeping. The first question asked of you by a business man when you apply for a position is "What can you do?" When you reply, "I can keep your books or perform any clerical work which relates to bookkeeping," you are giving a definite answer to this important question.

The answer suggested has a meaning to the owner of a business. It is necessary that he maintain a record of the transactions completed in the operation of his business, if he is to have available the information he needs regarding the affairs of the business. The business man is not only interested in this information himself but others are interested in it. When he wishes to borrow money from the bank or purchase merchandise on credit, he will be required to supply the banker or creditor with certain information. This and much other valuable information can be obtained only through the bookkeeping records.

If you enter business as a bookkeeper or as an assistant to a bookkeeper, you will find that you have many opportunities for promotion. You may advance in the bookkeeping or accounting field. Large concerns have highly organized bookkeeping departments controlled by well-paid executives. Bookkeeping experience will also give you training which will aid in preparing you for the profession of public accounting as a Certified Public Accountant (C. P. A.). Accountancy is a well-paid profession which is increasing in importance each year.

Those entering business as bookkeepers also find that they have many opportunities for promotion to other than bookkeeping work. The bookkeeper records the transactions of a business, and thus learns many things about how its affairs are handled that could not be learned in any other way. Much of this information is confidential and is possessed only by the manager or owner and the bookkeeper. A thorough knowledge of the business will aid you in securing promotion in many of its departments since business affairs can always be controlled most effectively by those who most thoroughly understand them.

But even if you never keep books or never work as an accountant, a knowledge of bookkeeping will have a very real value to you. The study of bookkeeping will give you an intelligent and sympathetic view of the duties of men in business and of the procedure in buying and selling goods. If you are employed in the selling, advertising, buying, delivery, or any other department, you will understand the effect of the work of one department on the others.

Knowing the accounting principles involved in connection with preparing financial reports, you will be in a better position to determine the value of investments. Whether you are the owner of a business or a wage earner, it will be necessary for you to save in order to increase the amount of property you own. The increase in the amount of this property is brought about through wise investments which produce an income.

As an individual, you will have certain social duties to perform in the contact with your fellow men. You may be called upon to act as secretary of an organization or association. In this capacity you may be required to record the transactions completed by the organization or association. A knowledge of bookkeeping will be necessary if these transactions are to be recorded so as to provide the needed information.

Should you continue your educational program through college, a knowledge of bookkeeping will be invaluable. The study of bookkeeping develops habits of regularity, promptness, accuracy, neatness, and many other elements essential to a complete, well-rounded education. Should you while in college major in commerce or accounting, a knowledge of bookkeeping will assist you in securing the greatest value from your classes. If your knowledge of bookkeeping is sufficient to permit applying it through recording the transactions completed by a business, you will have available a means of earning an income while continuing your education in college.

You will find bookkeeping a very interesting subject if you keep in mind the various ways in which you may use it. Briefly summarized they are:

(1) It may be used by you in recording transactions for a business so as to provide the information needed by the owner.

(2) If at any time you own or manage a business, you can use your knowledge of bookkeeping to interpret the information reported to you by the bookkeeper or the accounting department.

(3) Bookkeeping will give you an understanding of business which will be of assistance in completing all types of business transactions as an employee, a professional man, or the owner of a business.

(4) Bookkeeping leads to an understanding of business values that will aid you in making investments.

(5) Bookkeeping lays an excellent foundation for work in college and for securing a well-rounded education.

CHAPTER I

PROPERTY AND ITS OWNERSHIP

A business is operated in order to earn a profit for the owner, that is, to increase the amount of his property. The owner, therefore, needs to know the amount of his property and whether it is increasing or decreasing. The purpose of bookkeeping is to provide records showing the owner the amount of his property, the increases or decreases and the reasons for the changes.

Assets. In the operation of a business, property is needed. For example, if a merchant is to make sales, he must have merchandise in stock, equipment for displaying the stock, and money to pay for additional merchandise, for rent and for salaries. The money, merchandise, equipment and other property needed to carry on the operations of a business are known as *assets*.

Thus, cash is an asset, merchandise is an asset, equipment is an asset. Asset values are expressed in dollars and cents because money is the medium of exchange and the standard of value.

Property Rights. All assets are owned. The owner's exclusive right to property is known as *ownership, proprietorship,* or *capital.* If there are no debts, the value of the proprietorship is the same as the value of the assets.

Assets and Proprietorship. When the proprietor of a business owns all the assets used in the operations of the business and has no debts, his property and property rights stated in equation form are:

ASSETS = PROPRIETORSHIP

This equation applied to assets of $2,550.00 belonging to the proprietor of a shoe business, who has no debts, is:

ASSETS $2,550.00 = PROPRIETORSHIP $2,550.00

If the assets mentioned in the preceding equation consist of cash $350.00, shoes $1,800.00, and equipment $400.00, and C. W. Dow is the proprietor, the equation can be expressed:

CASH $350.00 + SHOES $1800.00 + EQUIP. $400.00 = C. W. DOW, PROP. $2550.00

The abbreviation "Equip." refers to "equipment" and "Prop." to "proprietorship."

Business Transactions. The exchanges incident to buying merchandise, other property and services, and selling merchandise, other property and services are referred to as *business transactions.* Each of these transactions results in a change in the nature of the assets owned and may result in an increase or decrease in the proprietorship.

C. W. Dow pays $50.00 in cash for shoes purchased.

As a result of this transaction, the nature of the assets owned is changed, but the proprietorship is not affected. C. W. Dow owns $50.00 less cash and $50.00 more merchandise; the total value is the same, hence his ownership is the same.

C. W. Dow pays $10.00 in cash for additional equipment.

As a result of this transaction, the nature of the assets owned is changed, but the proprietorship is not affected. C. W. Dow owns $10.00 less cash and $10.00 more equipment; the total is the same, hence his ownership is the same.

C. W. Dow receives $125.00 in cash for sales of shoes which cost $75.00.

As a result of this transaction, the nature of the assets owned has changed and the proprietorship has increased. The asset cash has increased $125.00. The asset merchandise has decreased $75.00. The total of the assets has, therefore, increased $50.00. Since assets equal proprietorship, the proprietorship has also increased $50.00.

C. W. Dow pays $2.00 in cash for delivering shoes sold.

As a result of this transaction, the asset cash has decreased $2.00. No other asset has increased, hence the total of the assets has decreased $2.00. Since assets equal proprietorship, the proprietorship has also decreased $2.00.

Recording Transactions. The information given with each of the foregoing illustrations states the effect of the transaction on the assets and proprietorship, but does not provide the final results of the four transactions. The owner is interested in knowing his proprietorship and the amount of each kind of assets on hand after the transactions have been completed.

C. W. Dow, a retail shoe merchant who owes no debts, has on hand Monday morning, May 12, the following assets which are used in the operation of the business: cash, $350.00; shoes, $1,800.00; equipment, $400.00.

These facts stated in equation form are:

CASH $350.00 + SHOES $1800.00 + EQUIP. $400.00 = C. W. DOW, PROP. $2550.00

During the day the following transactions are completed:

Pays $50.00 cash for shoes purchased.

This transaction decreases the asset cash and increases the asset shoes $50.00. Its effect on the beginning equation is:

CASH $350.00 + SHOES $1800.00 + EQUIP. $400.00 = C. W. DOW, PROP. $2550.00
−50.00 + 50.00
CASH $300.00 + SHOES $1850.00 + EQUIP. $400.00 = C. W. DOW, PROP. $2550.00

C. W. Dow now owns cash, $300.00; shoes, $1,850.00; and equipment, $400.00; hence his ownership of the assets is $2,550.00.

Pays $10.00 in cash for additional equipment purchased.

This transaction decreases the asset cash and increases the asset equipment. Its effect on the preceding equation is:

CASH	$300.00	+ SHOES	$1850.00	+ EQUIP.	$400.00	= C. W. DOW, PROP.	$2550.00	
	−10.00				+10.00			
CASH	$290.00	+ SHOES	$1850.00	+ EQUIP.	$410.00	= C. W. DOW, PROP.	$2550.00	

C. W. Dow now owns cash, $290.00; shoes, $1,850.00; and equipment, $410.00; hence his ownership of the assets is $2,550.00.

Receives $125.00 in cash for sale of shoes which cost $75.00.

This transaction increases the asset cash $125.00, decreases the asset shoes $75.00, and increases the proprietorship $50.00. Its effect on the preceding equation is:

CASH	$290.00	+ SHOES	$1850.00	+ EQUIP.	$410.00	= C. W. DOW, PROP.	$2550.00	
	+125.00		− 75.00				+ 50.00	
CASH	$415.00	+ SHOES	$1775.00	+ EQUIP.	$410.00	= C. W. DOW, PROP.	$2600.00	

C. W. Dow now owns cash, $415.00; shoes, $1,775.00; and equipment, $410.00; hence his ownership of the assets is $2,600.00. His proprietorship is $50.00 more than in the preceding equation because of the increase of $50.00 made by selling the shoes for more than cost, that is, a price greater than he paid for them.

Pays $2.00 in cash for delivering shoes.

This transaction decreases the asset cash $2.00 and the proprietorship the same amount. Its effect on the preceding equation is:

CASH	$415.00	+ SHOES	$1775.00	+ EQUIP.	$410.00	= C. W. DOW, PROP.	$2600.00	
	− 2.00						− 2.00	
CASH	$413.00	+ SHOES	$1775.00	+ EQUIP.	$410.00	= C. W. DOW, PROP.	$2598.00	

C. W. Dow now owns cash, $413.00; shoes, $1,775.00; and equipment, $410.00. His ownership has decreased $2.00 because of the expense necessary to deliver the shoes sold.

Receives $2.50 for the sale of a pair of shoes which cost $4.75.

This transaction increases the asset cash $2.50, decreases the asset shoes $4.75, and decreases the proprietorship $2.25. Its effect on the preceding equation is:

CASH	$413.00	+ SHOES	$1775.00	+ EQUIP.	$410.00	= C. W. DOW, PROP.	$2598.00	
	+ 2.50		− 4.75				− 2.25	
CASH	$415.50	+ SHOES	$1770.25	+ EQUIP.	$410.00	= C. W. DOW, PROP.	$2595.75	

C. W. Dow now owns cash, $415.50; shoes, $1,770.25; and equipment, $410.00. He lost $2.25 by selling shoes at this amount below cost.

The effect of the five transactions on the beginning equation, arranged in consecutive order, is:

Cash	+	Shoes	+	Equip.	=	C. W. Dow, Prop.
$350.00	+	$1800.00	+	$400.00	=	$2550.00
− 50.00		+ 50.00				
$300.00	+	$1850.00	+	$400.00	=	$2550.00
− 10.00				+ 10.00		
$290.00	+	$1850.00	+	$410.00	=	$2550.00
+125.00		− 75.00				+ 50.00
$415.00	+	$1775.00	+	$410.00	=	$2600.00
− 2.00						− 2.00
$413.00	+	$1775.00	+	$410.00	=	$2598.00
+ 2.50		− 4.75				− 2.25
$415.50	+	$1770.25	+	$410.00	=	$2595.75

When the last equation is compared with the first, it is observed that the proprietorship is now $2,595.75, while in the first equation, it was only $2,550.00. The proprietorship has increased, therefore, $45.75 ($2,595.75 − $2,550.00). The assets and proprietorship show an increase because the increase resulting from the transactions is greater than the sum of the decreases.

Exercise 1, Property and Its Ownership
(ORAL OR WRITTEN)

1. James Allan, a fruit dealer who owed no debts, had on hand Monday morning, April 3, the following assets: cash $900.00, fruit $800.00. What was the value of his ownership in these assets?
2. James Allan, in Question 1, paid $600.00 cash for a delivery truck. (a) What effect did this have on the amount of cash he owned? (b) How many kinds of assets did he own after this truck was purchased? (c) What was the value of his ownership?
3. Saturday night, April 8, James Allan, the fruit dealer mentioned in the two preceding questions, had assets as follows: cash $650.00, fruit $650.00 and delivery truck $600.00. (a) What was the value of his assets Saturday night? (b) How much had they increased?
4. State the nature of the transaction recorded under the equation below:

CASH	+	CANDY	+	EQUIP.	=	L. A. ORR, PROP.
$400	+	$500	+	$200	=	$1100
+20		−16				+ 4

5. May 1, W. A. Call, a book dealer who owed no debts, owned assets which were used in the operation of the business as follows: cash $350.00, books $600.00, equipment $100.00. What was his ownership?

6. W. A. Call received $20.00 for a dictionary which cost $13.00. (a) What effect did this transaction have on the asset cash? (b) on the asset books? (c) on the proprietorship?
7. Paid $25.00 for a display case. (a) What effect did this transaction have on the asset cash? (b) on the asset equipment? (c) on the proprietorship?
8. Paid $20.00 for services of clerk. (a) What effect did this transaction have on the asset cash? (b) on the proprietorship?
9. November 1, W. A. Crow, a hardware merchant who owed no debts, owned assets used in his business as follows: cash $600.00, hardware $1,500.00, equipment $300.00. November 30, his assets were cash $900.00, hardware $1,100.00, equipment $500.00. Did the operations of his business result in a profit or a loss?

Exercise 2, The Effect of Transactions on Property and Its Ownership

W. R. Allen, owner of a book shop, owed no debts and had on hand, Monday, June 14, the following assets which were used in the operations of his business: cash, $375.00; books, $1,250.00; and equipment, $350.00. During the week the transactions given below were completed. Prepare equations showing (a) the proprietorship at the beginning, and (b) proprietorship after each transaction was completed; arrange your work as in the illustration at the top of page 6.

(a) Paid cash, $50.00, for books purchased.
(b) Paid cash, $15.00, for equipment purchased.
(c) Received cash, $75.25, for books sold which cost $49.15.
(d) Received cash, $3.90, for a damaged book which cost $5.00.
(e) Received cash, $91.50, for books which cost $76.45.
(f) Paid cash, $15.00, for rent for the week.

Exercise 3, The Effect of Transactions on Property and Its Ownership

Monday, June 1, O. R. Bacon, a dealer in used automobiles, owed no debts and had on hand the following assets which were used in the operations of his business: cash, $2,250.00 and used cars, $3,550.00. During the week the transactions given below were completed. Prepare equations showing (a) the separate assets and the proprietorship at the beginning, and (b) the separate assets and the proprietorship after each transaction was completed; arrange your work as in the illustration at the top of page 6.

(a) Paid cash, $350.00, for used Chevrolet.
(b) Received cash, $600.00, for a used Buick which cost $450.00.
(c) Received cash, $450.00, for a used Chevrolet which cost $375.00.
(d) Paid cash, $10.00, for an advertisement in a local newspaper.
(e) Paid cash, $210.00, for a used Oakland.
(f) Received cash, $850.00, for a used Packard which cost $675.00.
(g) Paid cash, $25.00, for rent for the week.
(h) Paid cash, $35.50, for services of two salesmen.

Recording the Effect of a Group of Transactions. It is not necessary to prepare a new equation after each transaction if the information desired is the effect on assets and proprietorship of a group of transactions. Thus, if C. W. Dow wishes to know his assets and proprietorship after completing the five transactions of May 12, the record in equation form may be as illustrated below. For comparison with the illustration, the transactions are repeated.

(a) Began business with cash,$350.00; shoes,$1,800.00; equipment,$400.00.
(b) Paid $50.00 in cash for shoes purchased.
(c) Paid $10.00 in cash for equipment.
(d) Received cash, $125.00, for shoes sold which cost $75.00.
(e) Paid $2.00 in cash for delivering shoes.
(f) Received cash, $2.50, for a damaged pair of shoes which cost $4.75.

Cash	+	Shoes	+	Equip.	=	C. W. Dow, Prop.
$350.00	+	$1800.00	+	$400.00	=	$2550.00
− 50.00		+ 50.00				
− 10.00				+ 10.00		
+125.00		− 75.00				+ 50.00
− 2.00						− 2.00
+ 2.50		− 4.75				− 2.25
$415.50	+	$1770.25	+	$410.00	=	$2595.75

The assets and proprietorship at the beginning are indicated in equation form. The amount involved in each transaction is written on one line under the asset or proprietorship affected. Increases are indicated by the plus sign and decreases by the minus sign.

The increases indicated by a plus sign are added to the amount stated in the beginning equation. From this total, the decreases indicated by a minus sign are subtracted. The result is the present value of each asset and the proprietorship.

The Account Form. Addition and subtraction were indicated in the preceding illustrations by the use of plus and minus signs, but in bookkeeping there is a more convenient method of securing the same results. The plus and minus sign may be omitted and addition and subtraction indicated by position through the use of an *account*. The illustration at the right is a simple form of an account sometimes referred to as a "T" account. It will be observed that this is a vertical line with a horizontal line above it. An account is provided for each element in the equation; the name of the element is written above the horizontal line, as *Cash* in the illustration. This name is referred to as the *title* of the account.

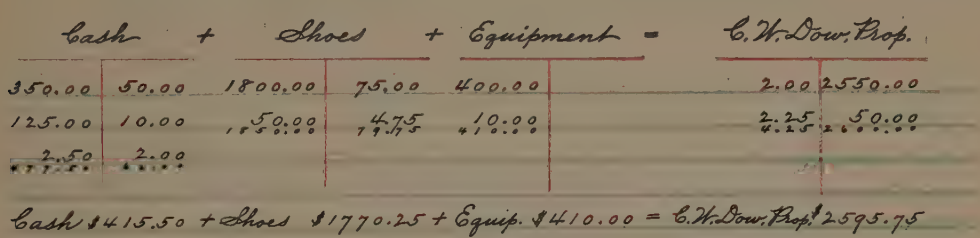
CASH

In the equation, Assets = Proprietorship, the assets are always listed at the left and the proprietorship at the right. For this reason it is customary

to enter assets on the left side of accounts and proprietorship on the right. Additions to assets are also entered on the left of asset accounts so that they can be conveniently added to the original amounts. Similarly, additions to proprietorship are entered on the right of the proprietorship account.

Subtractions are not immediately deducted from previous entries but are entered on the sides of the accounts opposite from the additions since the two sides of the accounts are provided in order that subtractions may be listed separate from additions. For this reason subtractions from assets are entered on the right of the asset accounts and subtractions from proprietorship on the left of the proprietorship account.

The assets and proprietorship of C. W. Dow and the transactions completed May 12 as stated at the top of page 8 and shown in the equations on the same page, recorded in account form are as follows:



Illustrations. The method of recording in "T" accounts the information shown in the above illustration is explained in detail in the following paragraphs:

"C. W. Dow, a retail shoe merchant who owes no debts, has on hand Monday morning, May 12, the following assets which were used in the operations of the business: cash, $350.00; shoes, $1,800.00; equipment, $400.00."

These facts stated in equation form are:

CASH $350.00 + SHOES $1800.00 + EQUIP. $400.00 = C. W. DOW, PROP. $2550.00

The facts stated in the above equation recorded in account form are:

CASH	+	SHOES	+	EQUIPMENT	=	C. W. DOW, PROP.
350.00		1800.00		400.00		2550.00

Each amount on the left of the equation is entered on the left of an account form with the title of the asset written above the horizontal line; the amount on the right of the equation is entered on the right of an account form with the title C. W. Dow, Proprietorship written above the line.

These four account forms now become *accounts* because each has information relative to one element of the business recorded in it. The first one at the left is the Cash account; the second, the Shoes account; the third, the Equipment account; and the fourth, C. W. Dow's Proprietorship account.

The *first* transaction, "Pays $50.00 in cash for shoes purchased", decreases the asset cash and increases the asset shoes. $50.00 is entered on the right side of the Cash account to indicate subtraction, and on the left of the Shoes account to indicate addition. When this transaction is recorded, the accounts appear as follows:

Cash		+ Shoes		+ Equipment		= C. W. Dow, Prop.
350.00	50.00	1800.00		400.00		2550.00
		50.00				

The *second* transaction, "Pays $10.00 in cash for additional equipment purchased", decreases the asset cash and increases the asset equipment. $10.00 is recorded on the right side of the Cash account to indicate subtraction and on the left side of the Equipment account to indicate addition. When the transaction is recorded the accounts appear as follows:

Cash		+ Shoes		+ Equipment		= C. W. Dow, Prop.
350.00	50.00	1800.00		400.00		2550.00
	10.00	50.00		10.00		

The *third* transaction, "Receives $125.00 in cash for shoes which cost $75.00", increases the asset cash $125.00, decreases the asset shoes $75.00, and increases the proprietorship $50.00. $125.00 is entered on the left side of the Cash account to indicate addition to this asset; $75.00, on the right side of the Shoes account to indicate subtraction from this asset; and $50.00, on the right side of the account with C. W. Dow, Proprietorship to indicate addition. Thus, both the total assets and the proprietorship are increased $50.00. When this transaction is recorded, the accounts appear as follows:

Cash		+ Shoes		+ Equipment		= C. W. Dow, Prop.
350.00	50.00	1800.00	75.00	400.00		2550.00
125.00	10.00	50.00		10.00		50.00

The *fourth* transaction, "Pays $2.00 in cash for delivering shoes", decreases the asset cash and does not increase any other asset. The total assets and proprietorship are, therefore, decreased $2.00 each. $2.00 is recorded on the right (usually referred to as *credit*) side of the Cash account, and $2.00 on the left (usually referred to as *debit*) side of the account with C. W. Dow, Proprietorship. When this transaction is recorded, the accounts appear as follows:

Cash		+ Shoes		+ Equipment		= C. W. Dow, Prop.	
350.00	50.00	1800.00	75.00	400.00		2.00	2550.00
125.00	10.00	50.00		10.00			50.00
	2.00						

The *fifth* transaction, "Receives $2.50 for a damaged pair of shoes which cost $4.75", increases the asset cash $2.50, and decreases the asset shoes

$4.75. The total assets and proprietorship, therefore, are decreased $2.25 each. $2.50 is recorded on the debit (left) side of the Cash account, $4.75 on the credit (right) side of the Shoes account, and $2.25 on the debit (left) side of the account with C. W. Dow, Proprietorship. When this transaction is recorded, the accounts appear as follows:

Cash		+ Shoes		+ Equipment	= C. W. Dow, Prop.	
350.00	50.00	1800.00	75.00	400.00	2.00	2550.00
125.00	10.00	50.00	4.75	10.00	2.25	50.00
2.50	2.00	*1850.00*	*79.75*	*410.00*	*4.25*	*2600.00*
477.50	*62.00*					

To provide the information needed for the equation "Assets = Proprietorship", it is necessary to ascertain the difference between the debits (sum of the amounts entered on the left) and the credits (sum of the amounts entered on the right) of each account. The difference between the two sides of an account is referred to as the *balance of the account.*

The sum of the debits to the Cash account, $477.50, minus the sum of the credits, $62.00, is $415.50, the balance of the Cash account. This balance should be the same as the cash on hand, ascertained by count.

The sum of the debits to the Shoes account, $1,850.00, minus the sum of the credits, $79.75, is $1,770.25, the balance of the Shoes account.

The sum of the debits to the Equipment account, $410.00, is the balance of the Equipment account because there are no credits to subtract.

The sum of the credits to the account with C. W. Dow, Prop., $2,600.00, minus the sum of the debits, $4.25, is $2,595.75, the balance of C. W. Dow, Proprietorship account.

These account balances stated in equation form are:

CASH $415.50 + SHOES $1,770.25 + EQUIP. $410.00 = C.W.DOW, PROP. $2,595.75

The same information in statement form, that is in the form of an equation with addition and subtraction indicated by position, is:

Cash$ 415.50
Shoes..... 1770.25
Equipment.. 410.00
Assets$2595.75 = C. W. Dow, Proprietorship $2595.75

C. W. Dow is interested in knowing the profit resulting from the group of transactions completed. This information may be shown in statement form as follows:

Ending Proprietorship$2595.75
Less Beginning Proprietorship... 2550.00
Net Profit.....$ 45.75

SUMMARY

Property is needed in the operations of a business. When the owner owes no debts, his proprietorship is the value of the property used in his business. Transactions cause changes in property values and proprietorship.

The account is a bookkeeping device for indicating addition and subtraction by position. The assets in the equation Assets = Proprietorship are recorded on the *left* side of asset accounts. The proprietorship on the right of the equation Assets = Proprietorship is recorded on the *right* side of the proprietor's account.

The term *debit* describes the left side of an account, and *credit*, the right side of an account.

Increases in assets are debits because they are additions to the assets owned. Decreases in assets are credits because they are subtractions from assets owned.

Increases in proprietorship are credits because they are additions to the proprietorship. Decreases in proprietorship are debits because they are subtractions from proprietorship.

The *balance of an account* is the difference between the two sides.

The sum of the assets equals the proprietorship when the proprietor has no debts to be paid out of the assets.

The profit is the difference between the net investment and the ending or present proprietorship.

Exercise 4, "T" Accounts

(ORAL OR WRITTEN)

1. How would the facts stated in the equation below be recorded in "T" accounts as illustrated on page 9?

 CASH $400.00 + HATS $600.00 = A. L. KING, PROPRIETORSHIP $1000.00

2. If A. L. King paid $100.00 in cash for equipment, what effect would this have on the equation stated in Question 1?

3. How would the facts recorded in the following accounts be stated in equation form?

CASH		GROCERIES		EQUIPMENT		O. B. RAY, PROP.	
250.50		650.90		300.00			1201.40

4. How would the facts shown in the following equation be recorded in "T" accounts?

 CASH $250.00 − 50.00 + TRUNKS $375.50 + 50.00 = B. C. BEAR, PROPRIETORSHIP $625.50

5. Why does the proprietorship decrease when cash is paid for delivering merchandise?

6. Why does the proprietorship increase when merchandise is sold at a profit?

7. If you pay a merchant $6.00 for a pair of shoes which cost him $3.50, what effect does this have on his assets and proprietorship?

8. October 1, Robert Dunn, a radio dealer, began business with cash, $1,500.00. October 31 the asset accounts in which the transactions completed during October were recorded show the following balances:

CASH		RADIOS		ROBT. DUNN, PROP.	
950.00		725.00			

(a) What amount should be recorded in the proprietorship account?
(b) How much did he make by operating the business during the month?

9. April 1, R. L. Mann, a retail grocer, owned and used in his grocery business the following assets: cash, $1,000.00; groceries, $500.00; delivery truck, $600.00. How would these facts be recorded in "T" accounts?

10. "Paid cash, $150.00, for groceries purchased." How would this transaction be recorded in the accounts required in Question 9?

11. "Paid cash, $50.00, for April rent." How would this transaction be recorded in the accounts used in the preceding questions?

12. "Took for home use groceries which cost $15.00." How would this transaction be recorded in the accounts mentioned in the three preceding questions?

Exercise 5, Recording Transactions

May 1, D. C. Watson, a radio dealer, owned assets used in his business as follows: cash, $529.65; radios, $1,223.62; he owed no debts. Record his assets and proprietorship, and the following transactions in "T" accounts as illustrated on page 9. Show the proprietorship and profit in statement form as illustrated on page 11.

(a) Received cash, $250.00, for a radio which cost $200.00.
(b) Paid cash, $5.50, to have the radio delivered and installed.
(c) Paid cash, $350.00, for two radios purchased for sale.
(d) Received cash, $100.00, for a radio which cost $75.00.
(e) Paid cash, $5.00, for an advertisement.
(f) Received cash, $50.00, for a radio which cost $42.50.

Exercise 6, Recording the Effect of a Group of Transactions

July 12, Miss Ada Gill, an art dealer, owned assets used in her business as follows: cash, $365.50; art supplies, $929.65; equipment, $275.00; she owed no debts. Record her assets and proprietorship, and the following transactions in "T" accounts similar to the illustration on page 9. Prepare the two statements showing proprietorship and net profit as illustrated on page 11.

Art supplies may be described by "Mdse.", the abbreviation of merchandise.

(a) Paid cash, $25.00, for two pieces of tapestry at $12.50 each.
(b) Received cash, $42.50, for a picture which cost $28.75.
(c) Paid cash, 50c, for delivering the picture.
(d) Paid cash, $125.50, for art supplies purchased.
(e) Received cash, $150.00, for tapestry which cost $95.00.
(f) Paid cash, $5.00, for an advertisement in the local newspaper.
(g) Received cash, $125.00, for a statue which cost $85.00.
(h) Paid cash, $1.00, for delivering the statue.
(i) Paid cash, $20.00, for rent for the week.

Exercise 7, Recording the Effect of a Group of Transactions

October 5, A. B. Harris, a jeweler, owned assets used in his business as follows: cash, $895.50; jewelry, $2,175.00; equipment, $300.00; he owed no debts. Record his assets and proprietorship, and the following transactions in "T" accounts similar to the illustration on page 9. Prepare the two statements showing proprietorship and net profit as illustrated on page 11.

(a) Received cash, $50.00, for a watch which cost $32.50.
(b) Paid cash for six watches at $12.25 each.
(c) Paid cash, $25.00, for rent for the week.
(d) Received cash, $12.50, for a clock which cost $9.75.
(e) Paid cash, 25c, for delivering the clock.
(f) Received cash, $12.25, for one of the watches returned.
(g) Received cash, $22.50, for one dozen silver spoons which cost $17.50.
(h) Received cash, $150.00, for a ring which cost $69.75.
(i) Paid cash, $1.25, for having ring engraved.

You may assume that the engraving was a service necessary to make the sale, and record the amount as a decrease in proprietorship.

(j) Received cash, $80.00, for chime clock which cost $55.00.
(k) Paid cash, $15.00, for services of the clerk.

CHAPTER II

INCREASES AND DECREASES IN PROPRIETORSHIP INCOME AND EXPENSE

The discussion in this chapter relates to the method of recording increases and decreases in proprietorship in accounts with Purchases, Sales and Expense. The separate accounts provide the owner with more information than when the increases and decreases are recorded in one account with the proprietor as illustrated in the preceding chapter.

Income. When cash or other assets are received for merchandise sold, the transaction usually results in an increase in assets and proprietorship. The increase in proprietorship resulting from the increase in assets is usually referred to as *income.*

The method of recording the income at the time of each sale was discussed and illustrated in the preceding chapter. This method is satisfactory in that it provides information about the increase in proprietorship, but it is not commonly followed since it is not practical to figure the profit on each sale when hundreds or thousands of sales are made daily. Furthermore, the proprietor has just as satisfactory information about his business if he knows the increase in proprietorship at intervals as he would have if he knew it after each sale.

It is, therefore, customary to record the purchases of merchandise in one account and the sales of merchandise in another and at intervals to determine from these accounts the profit made. The intervals may vary in length, but are never more than twelve months because the government requires annual reports of income. During the period the proprietor knows that his income is increasing because of sales, but he waits until the end to know the exact amount of the increase.

Recording Purchases. Each transaction in which cash is paid for merchandise purchased results in an increase in the asset merchandise and a decrease in the asset cash. The increase in the asset merchandise is recorded as a debit to an account with the title *Purchases,* and the decrease in the asset cash, as a credit to an account with Cash.

Recording Sales. Each transaction in which cash is received for merchandise sold is regarded as an increase in the asset cash and an increase in the income. The increase in the asset cash is recorded as a debit to the Cash account and the increase in the income as a credit to the Sales account. The Sales account is credited since the tendency of income is to increase proprietorship. The income account is therefore debited and credited in the same manner as proprietorship; it is credited for increases and debited for decreases.

Method of Recording Purchases and Sales. The method of recording transactions in which merchandise is bought and sold for cash in the manner suggested in the preceding discussion is further explained by illustrations.

A. L. Hope invests $1,000.00 cash in the retail hat business.

Stated in equation form his assets and proprietorship are:

CASH $1000 = A. L. HOPE, PROPRIETORSHIP $1000

The facts in this equation recorded in account form are:

CASH		A. L. HOPE, PROP.
1000.00	=	1000.00

During the first week of operations A. L. Hope completes the following transactions:

(a) Pays $600.00 in cash for a stock of hats.

This transaction results in an increase in the asset merchandise $600.00 and a decrease in the asset cash $600.00, hence is recorded as a debit to the Purchases account and a credit to the Cash account.

The foregoing accounts with this transaction recorded as suggested are:

CASH			PURCHASES		A. L. HOPE, PROP.
1000.00	600.00	+	600.00	=	1000.00

An equation prepared from these account balances is:

CASH $400 + PURCHASES $600 = A. L. HOPE, PROP. $1000

(b) Receives cash, $90.00, for hats sold.

This transaction results in an increase in the asset cash $90.00 and an increase in the income sales $90.00, hence is recorded as a debit to the Cash account and a credit to the Sales account.

The foregoing accounts with this transaction recorded as suggested are:

CASH		PURCHASES		A. L. HOPE, PROP.		SALES
1000.00	600.00	600.00	=	1000.00	+	90.00
90.00						
1090.00						

An equation prepared from these account balances is:

CASH $490 + PURCHASES $600 = A. L. HOPE, PROP. $1000 + SALES $90

(c) Pays $180.00 in cash for hats purchased.

The effect of this transaction is the same in nature as in the first one completed, hence is recorded in the same manner, that is, as a debit to the Purchases account for $180.00, and a credit to the Cash account for $180.00.

The foregoing accounts with this transaction recorded as suggested are:

CASH		PURCHASES	A. L. HOPE, PROP.	SALES
1000.00	600.00	600.00	1000.00	90.00
90.00	180.00	180.00		
1090.00	*780.00*	*780.00*		

An equation prepared from these account balances is:

CASH $310 + PURCHASES $780 = A. L. HOPE, PROP. $1000 + SALES $90.00

(d) Receives cash, $128.00, for hats sold.

The effect of this transaction is the same in nature as in the second one completed, hence is recorded in the same manner, that is, as a debit to the Cash account for $128.00, and a credit to the Sales account for $128.00.

The foregoing accounts with this transaction recorded as suggested are:

CASH		PURCHASES	A. L. HOPE, PROP.	SALES
1000.00	600.00	600.00	1000.00	90.00
90.00	180.00	180.00		128.00
128.00	*780.00*	*780.00*		*218.00*
1218.00				

An equation prepared from the above account balances is:

CASH $438 + PURCHASES $780 = A. L. HOPE, PROP. $1000 + SALES $218

This is an equation but it does not show proprietorship since the cost of the hats sold is not deducted from the Purchases account. When the cost of the hats sold is known, the proprietorship and net profit may be determined.

Method of Determining Proprietorship and Profit. The Purchases account shows the total purchases but some of the goods have been sold. The asset value of the merchandise in the store is, therefore, less than the value of the goods bought.

The value of the merchandise in stock is ascertained through *taking stock*. The quantity of each class of merchandise on hand is ascertained by making an actual count. The value of the merchandise is then found by multiplying the quantity by the cost price. The value of this merchandise on hand is referred to as *merchandise inventory*.

Following this process of taking stock, A. L. Hope finds that he has on hand hats worth $625.00.

The cost of the merchandise sold is referred to as the *cost of sales*. The cost of sales is the difference between the total cost (balance of Purchases account) and the merchandise inventory. The method of ascertaining the cost of sales for A. L. Hope is as follows:

Total Purchases (Balance of Purchases account)	$780.00
Less Merchandise Inventory (Ascertained by count)	625.00
Cost of Sales	$155.00

The increase in proprietorship because of sales is referred to as *profit on sales*. When the cost of merchandise sold is known, the profit on sales may be ascertained by subtracting the cost of sales from the total sales. The method of ascertaining the profit on sales for A. L. Hope is as follows:

Total Sales (Balance of Sales account)	$218.00
Less Cost of Sales	155.00
Profit on Sales	$ 63.00

The above statement shows the profit, but the owner is also interested in knowing his proprietorship. Since the proprietorship is equal to the sum of the assets, the proprietorship is shown in the following equation in statement form, that is, with addition indicated by position.

(1) A statement in which Assets = Proprietorship.

Cash (Cash account)	$ 438.00	
Mdse. Inv. (By count)	625.00	
Assets	$1,063.00	= A. L. H., Prop. $1,063.00

The proprietorship is now greater than before the transactions were completed because of the profit made on sales. The cost of sales was shown in the statement at the bottom of page 17 and the profit on sales, in the statement at the top of this page. The same facts may be shown in one statement, as follows:

(2) A statement showing cost of sales and profit on sales.

Sales (Sales account)		$218.00
Purchases (Purchases account)	$780.00	
Less Mdse. Inventory (By count)	625.00	
Cost of Sales		155.00
Profit on Sales		$ 63.00

The first statement shows the proprietorship and the second shows the reason for the change in proprietorship. A third statement which proves the correctness of the previous calculations may be prepared as follows:

(3) A statement showing proof of proprietorship.

Beginning Proprietorship	$1,000.00
Profit on Sales	63.00
Present Proprietorship	$1,063.00

It will be observed that the proprietorship found by adding the beginning proprietorship and the profit is the same as that found by adding the assets. This is true since the profit comes from the increase in assets, that is, from selling goods for more than their cost. Ascertaining the same proprietorship by the two methods proves the correctness of the calculations. The second method also shows how the increases come about, and thus provides the proprietor with that information not given by the equation in which assets equal proprietorship.

SUMMARY

The merchandise inventory is ascertained by counting the merchandise in stock. The cost of sales is the difference between the balance of the Purchases account and the merchandise inventory. The profit on sales is the difference between the cost of sales and the balance of the Sales account. An equation in which Assets = Proprietorship can be prepared from the balances of the asset accounts and the merchandise inventory.

Exercise 8, Purchases and Sales

(ORAL OR WRITTEN)

1. Robert Clark invested $500.00 in cash in a retail candy business. How will this be stated (a) in equation form? (b) in account form?

2. Robert Clark paid $300.00 in cash for candy purchased. How will the effect of this transaction on the preceding equation be stated (a) in equation form? (b) in account form?

3. Robert Clark received cash, $10.00, for sales of candy. How will the effect of this transaction on the equation in Question 2 be stated (a) in equation form? (b) in account form?

4. Robert Clark paid $50.00 cash for equipment. How will the effect of this transaction on the equation given in answer to Question 3 be stated (a) in equation form? (b) in account form?

5. The purchases and sales made during the month of May by Albert Baum, a retail florist, are shown in the illustrations at the right. (a) How much were the total purchases during the month? (b) How much were the total sales during the month? (c) What was the cost of the flowers sold, if $200.00 worth of flowers were on hand at the end of the month? (d) What was the profit made by selling flowers during the month?

PURCHASES	SALES
150.00	160.00
125.00	200.00
115.00	180.00
200.00	120.00

6. The Purchases account in the illustration at the left shows a record of the purchases made during the month of July, by O. R. Daley, a hardware merchant. The value of the merchandise on hand, July 31, was $900.00. What was the cost of the merchandise sold?

PURCHASES
300.00
650.00
450.00

7. During the month of July, O. R. Daley (Question 6) made a profit of $300.00 on merchandise sold. (a) What was the balance of the Sales account? (b) Was it a credit or a debit balance?

8. How will the following equation be recorded in accounts?

CASH $250.00 + PURCHASES $400.00 = O. C. ORR, PROP. $500.00 + SALES $150.00

Exercise 9, Purchases and Sales

Record the following transactions in "T" accounts with Cash, Purchases, J. W. Miller, Proprietorship, and Sales as illustrated on page 17.

(a) J. W. Miller invested cash, $2,000.00, in the retail grocery business.
(b) Paid cash, $1,250.00, for stock of merchandise.
(c) Received $89.50 in cash for merchandise sold.
(d) Paid cash for twelve dozen eggs at 35c per dozen.
(e) Paid $11.00 in cash for 25 lbs. of butter.
(f) Received $127.50 in cash for merchandise sold.
(g) Paid $1.20 in cash to a customer for two pounds of butter returned.

Debit Sales to record the decrease in sales and credit Cash to record the decrease in the asset cash.

(h) Paid $56.75 in cash for merchandise purchased.
(i) Received $2.00 in cash for a part of the merchandise returned.

Debit Cash to record the increase in the asset cash and credit Purchases to record the decrease in the purchases.

Cash balance $895.85.
Value of merchandise in stock $1,171.65.
Show in statement form similar to the illustrations on page 18:

(1) Assets = Proprietorship.
(2) Cost of Sales and Profit on Sales.
(3) Proof of Proprietorship.

Exercise 10, Purchases and Sales

Record the following transactions in "T" accounts with Cash, Purchases, B. H. Young, Proprietorship and Sales as illustrated on page 17.

(a) B. H. Young invested $500.00 in cash, in a delicatessen store.
(b) Paid $350.00 in cash for merchandise purchased.
(c) Received $32.50 in cash for sales of merchandise.
(d) Paid $14.75 in cash for merchandise purchased.
(e) Received $35.50 in cash for sales of merchandise.
(f) Paid 80c in cash to a customer for one pound of boiled ham returned.
(g) Paid $4.50 in cash for one box of grapefruit.
(h) Received $42.50 in cash for sales of merchandise.

Cash balance $240.45.
Value of merchandise in stock $314.30.
Show in statement form similar to the illustrations on page 18:

(1) Assets = Proprietorship
(2) Cost of Sales and Profit on Sales.
(3) Proof of Proprietorship.

Exercise 11, Profit on Sales

(1) On a sheet of paper ruled with columns similar to the form below copy the figures given and fill in the blank spaces.

	Purchases	Inventory	Cost of Sales	Sales	Profit on Sales
(a)	$2250	$ 650	1600	$2500	900
(b)	2300	400	1900	2150	$250
(c)	1290	550	$ 740	1200	
(d)	3500	2150	1350	2165	815
(e)	3877	1227	2650	3215	565
(f)	2800	950	2050	2790	740
(g)	1875	900	975	1520	545

(2) Show the purchases and sales in the first two problems recorded in "T" accounts with Purchases and Sales.

DECREASES IN PROPRIETORSHIP

Expense. When cash is paid for rent, salaries, telephone, or similar services, the transaction results in a decrease in the asset cash and a decrease in proprietorship. The term *expense* is used to describe decreases in proprietorship resulting from the giving of assets by the business for services rendered to it.

In the preceding chapter decreases in proprietorship because of cash paid for expenses were recorded as debits to the account with the proprietor. The same effect may be obtained by recording transactions of this nature as debits to an account with the title Expense and credits to the Cash account.

All expense is regarded as a decrease in proprietorship, hence the Expense account is debited in the same manner as the proprietor's account would be debited if expenses were recorded in the proprietorship account.

Accounts with Expense. Should the owner wish to know the cost of each kind of service rendered to the business, the decreases in proprietorship because of expenses may be classified and recorded in separate accounts with appropriate titles. Thus, if he wishes to know the amount paid as salaries, the title of this account is *Salary Expense.* If he wishes to know the amount paid for rent, the title of this account is *Rent Expense.*

Usually when separate accounts are provided for two or more classes of expense, an additional account is necessary in which to record expenses of a miscellaneous nature. The title of this account is *Miscellaneous Expense* or *General Expense.*

When the expenses are recorded in separate accounts, the sum of the debit balances of these accounts will be the same as would be shown by the balance of the one expense account.

Method of Recording Increases and Decreases in Proprietorship. The method of recording transactions in which cash is paid for merchandise purchased, cash is received for merchandise sold, and cash is paid for operating expenses* is further explained by the following illustrations.

L. B. Carr buys and sells automobile tires for cash. Monday morning, June 5, he has cash, $1,250.00. Stated in equation form his assets and proprietorship are:

CASH $1250.00 = L. B. CARR, PROPRIETORSHIP $1250.00

The facts in this equation recorded in accounts are:

CASH		L. B. CARR, PROP.
1250.00	=	1250.00

During the week he completes the following transactions:

(a) Pays cash for 100 tires, $875.00.

After this transaction is recorded, the accounts are as follows:

CASH		PURCHASES		L. B. CARR, PROP.
1250.00 \| 875.00	+	875.00	=	1250.00

(b) Pays $50.00 in cash, rent for the week.

The Cash account is credited to record the decrease in the asset cash; the Expense account is debited to show subtraction from proprietorship because of the decrease in the asset.

After this transaction is recorded, the accounts are as follows:

CASH		PURCHASES		L. B. CARR, PROP.		EXPENSE
1250.00 \| 875.00 50.00	+	875.00	=	1250.00	−	50.00

(c) Receives cash, $325.00, for 25 tires at $13.00 each.

After this transaction is recorded, the accounts are as follows:

CASH		PURCHASES		L. B. CARR, PROP.		SALES		EXPENSE
1250.00 \| 875.00 325.00 \| 50.00	+	875.00	=	1250.00	+	325.00	−	50.00

*Only one expense account is here used for expenses. The method of recording operating costs in separate expense accounts will be developed in succeeding lessons.

(d) Pays $62.50 in cash for 25 tubes at $2.50 each.

After this transaction is recorded, the accounts are as follows:

CASH		PURCHASES		L. B. CARR, PROP.
1250.00	875.00	875.00		1250.00
325.00	50.00	62.50		
	62.50			

SALES	EXPENSE
325.00	50.00

(e) Receives cash, $145.00, for 10 tires at $13.00 and 5 tubes at $3.00.

After this transaction is recorded, the accounts are as follows:

CASH		PURCHASES		L. B. CARR, PROP.
1250.00	875.00	875.00		1250.00
325.00	50.00	62.50		
145.00	62.50			

SALES	EXPENSE
325.00	50.00
145.00	

(f) Pays $25.00 in cash for an advertisement of a bargain sale.

After this transaction is recorded, the accounts are as follows:

CASH		PURCHASES		L. B. CARR, PROP.
1250.00	875.00	875.00		1250.00
325.00	50.00	62.50		
145.00	62.50			
	25.00			

SALES	EXPENSE
325.00	50.00
145.00	25.00

(g) Receives cash, $657.50, as a result of the bargain sale, for 55 tires at $11.50 and 10 tubes at $2.50.

After this transaction is recorded, the accounts are as follows:

CASH		PURCHASES		L. B. CARR, PROP.
1250.00	875.00	875.00		1250.00
325.00	50.00	62.50		
145.00	62.50			
657.50	25.00			

SALES	EXPENSE
325.00	50.00
145.00	25.00
657.50	

(h) Pays $62.50 in cash for clerks' salaries.

After this transaction is recorded, the accounts are as follows:

CASH		PURCHASES	L. B. CARR, PROP.
1250.00	875.00	875.00	1250.00
325.00	50.00	62.50	
145.00	62.50	*937.50*	
657.50	25.00		
2377.50	62.50		
	1075.00		

SALES	EXPENSE
325.00	50.00
145.00	25.00
657.50	62.50
1127.50	*137.50*

L. B. Carr wishes to ascertain his proprietorship Saturday night. Before ascertaining proprietorship it is necessary to prove that the cash on hand agrees with the balance of the Cash account, and to take stock of the merchandise on hand.

A count of the cash on hand showed $1,302.50, which agrees with the balance of the Cash account. The merchandise inventory ascertained by a count of the tires and tubes on hand shows the following:

10 tires, cost $8.75 each	$ 87.50
10 tubes, cost $2.50 each	25.00
Total	$112.50

There is no account with which the value of the merchandise inventory, $112.50, can be checked the same as cash. For this reason, it is customary in some lines of business to provide a record of the number of units purchased and sold so that the merchandise inventory may be checked with the number of units remaining unsold. The chief objection to this supplementary record is the expense because of the clerical work necessary to maintain it. When the supplementary record is not maintained, it is necessary to accept the value of the inventory as correct.

An equation prepared from the balances of the accounts shown at the top of this page is:

CASH $1302.50 + PURCHASES $937.50 = L. B. CARR, PROP. $1250.00 + SALES $1127.50 − EXPENSE $137.50

This is an equation because the sum of the two amounts on the left side of the equality sign equals the sum of the first two amounts on the right side minus the third amount. This, however, is not an equation in which "Assets = Proprietorship" because the cost of the tires and tubes sold has not been recorded.

Ascertaining Proprietorship and Profit. As explained on page 17, the proprietorship may be ascertained from the account balances in the equation and the merchandise inventory. The three equations in statement form prepared from this equation in the same form as those on page 18 are as follows:

(1) A statement in which Assets = Proprietorship.

Cash (Cash account)	$1,302.50		
Mdse. Inv. (See list, page 24)	112.50		
Total Assets	$1,415.00	= L. B. C., PROP.	$1,415.00

(2) A statement showing cost of sales, profit on sales and net profit.

Sales (Sales account)		$1,127.50
Purchases (Purchases account)	$937.50	
Less Mdse. Inventory (See list, page 24)	112.50	
Cost of Tires Sold		825.00
Profit on Sales		302.50
Less Expenses (Expense account)		137.50
Net Profit		$165.00

This statement shows the profit on sales ascertained in the same manner as in the second statement on page 18, also the net profit. The net profit is ascertained by deducting the expenses from the profit on sales.

(3) A statement showing proof of proprietorship.

L. B. Carr, Beginning Proprietorship	$1,250.00
Net Profit	165.00
L. B. Carr, Present Proprietorship	$1,415.00

The fact that the proprietorship resulting from the sum of the assets is the same as the proprietorship resulting from adding the net profit to the beginning proprietorship indicates that the calculations are correct. At the beginning, the sum of the assets equals the proprietorship. As a result of the transactions completed, the assets increase the same amount as the income increases and the assets decrease the same amount as the expense increases. Because of these facts, the proprietorship shown by the sum of the assets should be the same as the proprietorship shown by the net investment plus the net profit.

SUMMARY

The sum of the assets at the beginning of business equals the sum of the proprietorship when there are no debts. When cash is received and paid in all transactions, each transaction results in one of the following:

(1) A decrease in one asset and a corresponding increase in another asset.

(2) An increase in one asset and a corresponding increase in income.

(3) A decrease in one asset and a corresponding increase in expense.

Each transaction is recorded so as to show the changes in assets, assets and income, or assets and expense. This record is made in the following manner:

(1) Increases in assets and increases in expense are recorded as *debits* in the appropriate accounts.

(2) Decreases in assets and increases in income are recorded as *credits* in the appropriate accounts.

Proprietorship may be ascertained from the balances of the asset accounts and the merchandise inventory ascertained by count.

The cost of sales is the difference between the balance of the Purchases account and the closing merchandise inventory.

The profit on sales is the difference between the balance of the Sales account and the cost of sales.

The net profit is the difference between the profit on sales and the balance of the Expense account.

The discussion in this chapter relates to the method of ascertaining proprietorship when the cost of sales is to be recorded after a number of sales have been made. The method of recording the cost of sales and recording the net profit in the owner's proprietorship account is explained in a subsequent chapter.

Exercise 12, Income and Expense

(ORAL OR WRITTEN)

1. (a) Describe the transaction which resulted in the information contained in the accounts at the right. (b) Which account records the asset? (c) Which account the income?

CASH	SALES
35.50	35.50

2. J. L. Ray began business with a cash investment of $1,000.00. State his proprietorship (a) in equation form; (b) in account form.
3. J. L. Ray paid $50.00 for rent. State the effect of this transaction on the preceding equation (a) in equation form; (b) in account form.
4. J. L. Ray paid $600.00 for merchandise purchased. State the effect of this transaction on the preceding equation (a) in equation form; (b) in account form.
5. J. L. Ray received $300.00 for merchandise sold. State the effect of this transaction on the preceding equation (a) in equation form; (b) in account form.
6. J. L. Ray wishes to know his proprietorship after the transactions are completed. The cash on hand is $650.00, and the merchandise inventory, $400.00. (a) What is the cost of the merchandise sold? (b) What is the profit on sales? (c) What is the proprietorship of J. L. Ray?

7. July 1. Mary L. Davis, owner of the Candy Kitchen, owned assets which she used in the operations of the business as follows: cash $680.00 and equipment $500.00; she owed no debts. At the end of July the account balances resulting from the transactions completed during July were as follows:

Cash		Purchases		Equipment		
905.00	+	650.00	+	500.00	=	

Mary L. Davis, Prop.		Sales		Expense
1180.00	+	1000.00	−	125.00

Miss Davis wishes to know her proprietorship July 31. The cash on hand agrees with the balance of the Cash account. The merchandise inventory is $100.00. (a) What is the cost of the merchandise sold? (b) What is the profit on sales? (c) What is the net profit? (d) What is her proprietorship July 31?

8. The balances of the Purchases and Sales accounts as a result of purchases and sales made by A. L. Ball, a retail merchant, are shown in the accounts at the right. The merchandise inventory is $450.00. (a) What is the cost of sales? (b) What is the profit on sales?

Purchases	Sales
1450.00	1675.00

9. The results of the cash transactions completed by A. B. Crowe during the month of June are shown in the following equation:

Cash $800.00 + Purchases $1200.00 = A. B. Crowe, Prop.
$650.00 + Sales $1500.00 − Expense $150.00.

A. B. Crowe wishes to ascertain his proprietorship June 30, and his profit for June. The cash on hand agrees with the balance of the Cash account. The merchandise inventory is $200.00. (a) What facts will appear in an equation which shows "Assets = Proprietorship?" What is (b) the cost of sales? (c) the profit on sales? (d) the net profit?

10. State the amounts omitted from the columns below:

	Purchases	Sales	Inventory	Cost of Sales	Profit on Sales	Expense	Net Profit
(a)	$1200	$1600	$150	1150	550	$100	450
(b)	2200	2100	700	$1300	800	300	500
(c)	1800	1500	300	1200	$300	150	150
(d)	3400	2500	600	1800	700	450	250
(e)	3200	3600	500	2700	900	350	550

Exercise 13, Recording Transactions

J. A. Lamb, a butcher, had the following assets on Monday morning, November 12: cash, $462.50; equipment, $800.00. He owed no debts. During the week he completed the following transactions:

(a) Paid Sander Packing Co. $68.75 in cash for meat purchased.
(b) Received cash for meat sold, $42.50.
(c) Paid cash for additional equipment purchased, $5.00.
(d) Paid Swift Co. $57.25 in cash for meat purchased.
(e) Received cash for meat sold, $94.47.
(f) Paid cash for rent for the week, $20.00.
(g) Paid Meyer Packing Co. $72.95 in cash for meat purchased.
(h) Received cash for meat sold, $204.05.
(i) Paid cash to clerk for services, $12.50.

Value of meat on hand, $25.60; cash on hand, $567.07.

Instructions. (1) Record the assets and proprietorship Monday morning and the transactions completed during the week in "T" accounts with Cash, Equipment, J. A. Lamb Proprietorship, Sales, Purchases, and Expense.

(2) Show proprietorship, net profit, and proof of proprietorship in statements as illustrated on page 25.

Exercise 14, Recording Transactions

Miss Maud Davis, a dealer in flowers, began business Monday morning, July 6, with cash $327.50, and equipment $275.00; she owed no debts. During the week she completed the following transactions:

(a) Paid cash for flowers purchased, $35.25.
(b) Paid cash for weekly rent, $18.50.
(c) Received cash for flowers sold, $31.85.
(d) Paid cash for flowers purchased, $27.50.
(e) Paid cash for flowers returned to her per agreement, $1.25.
(f) Paid cash for flowers and express charges, $25.50.
(g) Received cash for flowers sold, $62.55.
(h) Paid cash for flowers purchased, $37.50.
(i) Received cash for flowers sold, $64.55.
(j) Paid cash for flowers purchased, $28.75.
(k) Paid delivery boy $16.45 in cash for weekly salary and car fare.
(l) Paid cash for additional equipment, $50.00.
(m) Received cash for all the remaining flowers sold, $91.40.

A count of the cash showed the amount on hand to be $337.15.

Instructions. (1) Record the assets and proprietorship Monday morning and the transactions completed during the week in "T" accounts with Cash, Equipment, Maud Davis Proprietorship, Sales, Purchases and Expense.

(2) Show proprietorship, net profit, and proof of proprietorship in statements as illustrated on page 25.

CHAPTER III

THE JOURNAL AND JOURNALIZING

The accounts discussed in the preceding chapters provide the proprietor of a business with valuable information about assets, proprietorship, income, and expense. Additional information may be needed. The discussion and illustrations in this chapter relate to a method of securing some of this additional information.

Journal. Full information about transactions may be provided by recording them in a book referred to as the *journal.* In this book each transaction may be entered as it occurs together with the complete details. The details include the date, the accounts affected, the amounts, and any necessary explanation.

The journal is sometimes referred to as a *book of original entry* because transactions are first recorded in it and then transferred to the accounts in a separate book. The journal is ruled so that the entries can be made and transferred most conveniently. Spaces are provided for the dates, the account titles, the amounts and the explanations.

The illustration below shows a typical journal form. The illustration on page 32 shows a similar form with a number of transactions recorded on it. The account to be debited and the amount, and the account to be credited and the amount are indicated by position.

The amount to be recorded on the *debit* side of an account is entered in the first money column and the title of the account written on a line with it and at the *left.* The amount to be recorded on the *credit* side of an account is entered in the second money column and the account title written at the left but *indented.* The column at the left marked "L. F." is used when the amounts are being transferred to the accounts.

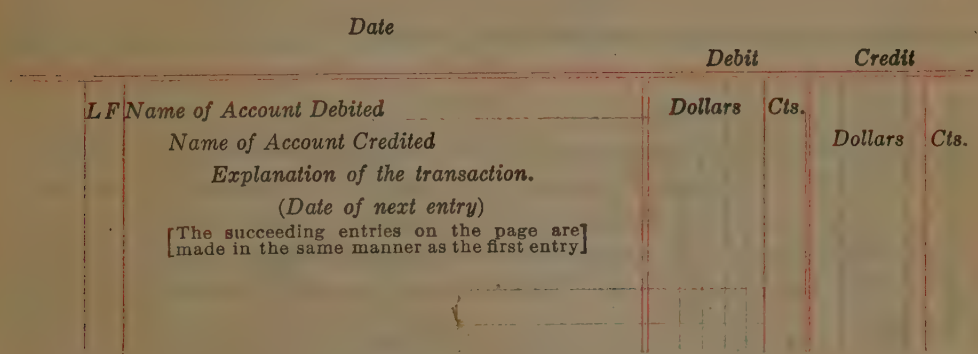


Illustration 1, One Form of Journal Ruling

Journalizing. The transactions are recorded chronologically, that is, in the order of their occurrence. Each transaction is recorded at the time it is completed. The purpose of the entry for each transaction is to state the changes in the assets and proprietorship so that they may be transferred to the accounts. The equation "Assets = Proprietorship" is used as a basis for determining the entries to record the proprietorship at the beginning, and each transaction completed. The explanation should be sufficient to verify the statement of debits and credits.

January 2. L. B. Allen invested $1500.00 in the flour business.

This investment stated in equation form is:

CASH $1500.00 = L. B. ALLEN, PROPRIETORSHIP $1500.00

The facts stated in this equation recorded in account form require a debit to the Cash account for $1500.00 and a credit to the proprietorship account for the same amount. The illustration at the right shows the method of stating these same facts in the journal. The debit to the Cash account is indicated by placing the amount in the first money column and writing the name of the account at the left. The credit to the proprietorship account is indicated by placing the amount in the second money column and writing the title of the account at the left but indented so as to indicate the credit. The explanation should include the necessary information to show that the changes in assets or assets and proprietorship have been correctly interpreted and recorded.

January 2, 19		
Cash	1500 —	
L. B. Allen, Prop.		1500 —
Invested $1500.00 cash in the flour business.		

January 2. Paid cash for rent for January, $50.00.

As this transaction increases the expense and decreases the cash, it is necessary to debit the Expense account and credit the Cash account for $50.00. The entry made on the page of the journal which contains a record of the investment is in the illustration at the left. The date of the second transaction is written in the center of the page on the line below the explanation of the first transaction. This avoids the possibility of overlooking the debit to Expense when transferring the amounts to the accounts; it also serves to separate the transactions. The name of the month is not repeated.

January 2, 19		
Cash	1500 —	
L. B. Allen, Prop.		1500 —
Invested $1500.00 cash in the flour business.		
2		
Expense	50 —	
Cash		50 —
Paid Jan. rent of store.		

Jan. 3. Paid $1,192.50 for 150 barrels of flour at $7.95.

This transaction increases the purchases and decreases the cash. To record this transaction it is necessary to debit the Purchases account and credit the Cash account. The required entry on the same page of the journal in which the two preceding transactions were recorded is illustrated in the third entry at the right. The debit to the Purchases account records the increase in purchases, and the credit to the Cash account records the increase in the asset cash.

January 2, 19

Cash		1500 —		
L. B. Allen, Prop.				1500 —
Invested $1500.00 cash in the flour business.				
2				
Expense		50 —		
Cash				50 —
Paid Jan. rent of store.				
3				
Purchases		1192 50		
Cash				1192 50
Paid cash for 150 bbls. of flour at $7.95 per bbl.				

Jan. 5. Received $746.25 for 75 barrels of flour at $9.95.

This transaction increases the cash and increases the Sales. To record this transaction it is necessary to debit the Cash account for $746.25 and credit the Sales account for the same amount. The required entry in journal form on the same page of the journal in which the three preceding transactions were recorded is illustrated in the fourth entry at the left. The debit to the Cash account records the increase in the asset cash, and the credit to the Sales account, the increase in sales.

January 2, 19

Cash		1500 —		
L. B. Allen, Prop.				1500 —
Invested $1500.00 cash in the flour business.				
2				
Expense		50 —		
Cash				50 —
Paid Jan. rent of store.				
3				
Purchases		1192 50		
Cash				1192 50
Paid cash for 150 bbls. of flour at $7.95 per bbl.				
5				
Cash		746 25		
Sales				746 25
Received cash for 75 bbls. of flour at $9.95.				

During the remainder of January, L. B. Allen completed the following transactions:

10. Paid $914.25 for 115 barrels of flour at $7.95 per barrel.
14. Received $348.25 for 35 barrels of flour sold at $9.95 per barrel.
16. Paid cash for January telephone services, $4.50.
20. Received $626.85 for 63 barrels of flour sold at $9.95 per barrel.
31. Paid $86.50, delivery charges on flour sold.

The four transactions illustrated on pages 30 and 31 and the additional transactions given above, are shown recorded in the illustration on page 32.

January 2, 19

Cash	1500—	
L B Allen Prop.		1500—
Investment in the flour business.		
2		
Expense	50—	
Cash		50—
January rent of store.		
3		
Purchases	1192 50	
Cash		1192 50
Purchased 150 bbls flour at $7.95.		
5		
Cash	746 25	
Sales		746 25
Sold 75 bbls. flour at $9.95		
10		
Purchases	914 25	
Cash		914 25
Purchased 115 bbls. flour at $7.95		
14		
Cash	348 25	
Sales		348 25
Sold 35 bbls. flour at $9.95		
16		
Expense	4 50	
Cash		4 50
Telephone services for January.		
20		
Cash	626 85	
Sales		626 85
Sold 63 bbls. flour at $9.95.		
31		
Expense	8 50	
Cash		8 50
Delivery charges on flour sold.		

Illustration 2, Journal

SUMMARY

The journal contains a chronological record of the transactions completed. The information relative to each transaction includes the date of the transaction, the name of the account debited and amount, the name of the account credited and amount, and the explanation.

Determining the accounts to be debited and credited and recording the transaction in journal form is referred to as *journalizing*.

Increases in assets and increases in expense are *debits*.

Decreases in assets and increases in income are *credits*.

Each entry in the journal is an equation. The assets increase the same amount as the assets decrease, the assets increase the same amount as the income increases, or the expenses increase the same amount as the assets decrease.

Should the increase in assets in a transaction be greater than the decrease in assets, the excess is income; if the increase is less than the decrease, the difference is expense or cost.

Exercise 15, Journalizing

(ORAL OR WRITTEN)

State the journal entry necessary to record each of the following cash transactions:

1. January 2. Paid $50.00 for January rent.
2. May 9. Received $37.50 for merchandise sold.
3. June 7. Paid $150.00 for merchandise purchased.
4. July 16. Paid $20.00 for services of clerk.
5. October 1. D. A. Hall invested $1,200.00 in the retail shoe business.
6. January 11. Paid $10.00 for advertising.
7. March 12. Received $75.00 for merchandise sold.
8. December 16. Paid $200.00 for merchandise purchased.
9. State as fully as possible the explanation needed to complete the record in the journal for each of the following transactions:

	April 1, 19				April 4, 19			
(a)	Cash	$1200.00		(e)	Cash	$125.50		
	O. C. Day, Prop.		$1200.00		Sales		$125.50	
	1				5			
(b)	Rent Expense	20.00		(f)	Purchases	115.35		
	Cash		20.00		Cash		115.35	
	2				6			
(c)	Purchases	927.65		(g)	Cash	125.75		
	Cash		927.65		Sales		125.75	
	3				6			
(d)	Cash	87.50		(h)	Salary Expense	12.50		
	Sales		87.50		Cash		12.50	

Exercise 16, Journalizing

Journalize the following transactions completed by R. L. Dunn during the month of May; the figures at the left are the days of the month.

1. Invested $2,500.00 in cash in the retail clothing business.
7. Paid $1,500.00 for a stock of merchandise.
8. Paid $100.00 for May rent.
10. Received $250.00 for merchandise sold.
12. Paid $15.00 for services of clerk.
18. Received $215.65 for merchandise sold.
25. Paid $1.50 for cleaning store.
28. Received $165.25 for merchandise sold.
31. Paid $18.50 for services of clerk.

Exercise 17, Journalizing

Journalize the following transactions completed by Miss Alma L. Manley during the first week in June.

1. Miss Alma L. Manley invested $500.00 in cash in the retail florist business.
1. Paid $390.50 for stock of flowers.
1. Paid rent for the week, $15.00.
3. Received $88.50 for sales of flowers.
4. Received $106.50 for sales of flowers.
5. Paid $12.50 for flowers purchased.
6. Received $25.00 for flowers sold.
6. Paid $1.00 for delivering the flowers sold today.
6. Paid $12.50 for services of clerk.

Exercise 18, Journalizing

The equation below, which is similar in form to that at the top of page 8, shows the proprietorship at the beginning of business in the morning and eight transactions completed in one day. The nature of each transaction is indicated by the position and plus or minus signs.

Instructions. Journalize the assets and proprietorship and each of the eight transactions. Use your name as proprietor and the current date. The first expense item was rent and the last one, clerk's salary.

CASH $2000	+ PURCHASES	= PROP. $2000	+ SALES	− EXPENSES
− 1200	+ $1200			
− 50				− $50
+ 250			+ $250	
− 100	+ 100			
+ 25	− 25			
+ 200			+ 200	
− 22			− 22	
− 18				− 18
CASH $1085	+ PURCHASES $1275	= PROP. $2000	+ SALES $428	− EXPENSES $68

CHAPTER IV

THE LEDGER, POSTING AND THE TRIAL BALANCE

The information desired by the owner of a business is obtained from the account balances. When the transactions are recorded in a book of original entry, it is, therefore, necessary to transfer them to accounts. The discussion in this chapter relates to the method of transferring the information recorded in the journal to the accounts in the ledger.

The Ledger is a group of accounts containing a record of all transactions in account form. The information in each account may be recorded on a card, on a loose sheet punched to fit a binder or on a page in a bound book. The ledger, therefore, may be a group of cards, a number of loose sheets in a binder or a bound book. A book with pages ruled in account form is also referred to as a ledger.

The account form in the previous illustrations provides for recording debits and credits and the amount involved, but does not provide for all the needed information. For this reason, the ledger is usually ruled with columns for the date of the transaction, the explanation, the page of the book of original entry and the amount. The information recorded in an account should be such that it will not be necessary to refer to the journal in order to determine the meaning of an account balance or the information recorded in it.

The illustration below shows one form of ledger ruling and the illustration on page 39 a group of accounts composing a ledger. Three vertical lines in the center separate the debits and credits. The use of each column on the left (debit) and right (credit) of this division line is indicated in the illustration below.

TITLE OF THE ACCOUNT

(Debits)						*(Credits)*					
Year Mo.	*Day*	*Explanation*	*Page Book of Orig. Entry*	*Dollars*	*Cts.*	*Year Mo.*	*Day*	*Explanation*	*Page Book of Orig. Entry*	*Dollars*	*Cts*

Illustration 3, One Form of Ruling for a Ledger

Posting from the Journal. The process of transferring the information recorded in the journal to the accounts in the ledger is referred to as *posting*. The purpose of posting is to summarize in the ledger the changes in assets and proprietorship as recorded in the journal.

When all transactions have been posted, the ledger will contain the same information as the journal but in account form. If posted correctly, the sum of the debit balances of the accounts will equal the sum of the credit balances.

Opening an Account in the Ledger. Accounts are usually opened in the ledger as they are needed at the time of posting. The account is opened by writing the title of the account as in the illustration on page 39. It will be observed that the account title is written on a line provided for it and centered so that it will be an equal distance from the left and right sides of the page.

Illustration of Posting. The process of posting is illustrated in the following paragraphs. The journal entries used are the first two in the illustration on page 32. The pages in the folio columns of the journal and ledger refer to the illustrations on pages 38 and 39.

The illustration at the right shows the first journal entry and the results of posting this entry. The amounts were posted in the order stated in the journal, that is, (a) debit entry, and (b) credit entry. The posting was completed in the following manner:

PAGE 38 January 2, 19

39	Cash		1500 —	
39	L. B. Allen, Prop.			1500 —
	Invested $1500.00 cash in the flour business.			

PAGE 39 CASH

19				
Jan.	2	38	1500 —	

PAGE 39 L. B. ALLEN, PROP.

19				
Jan.	2	38		1500 —

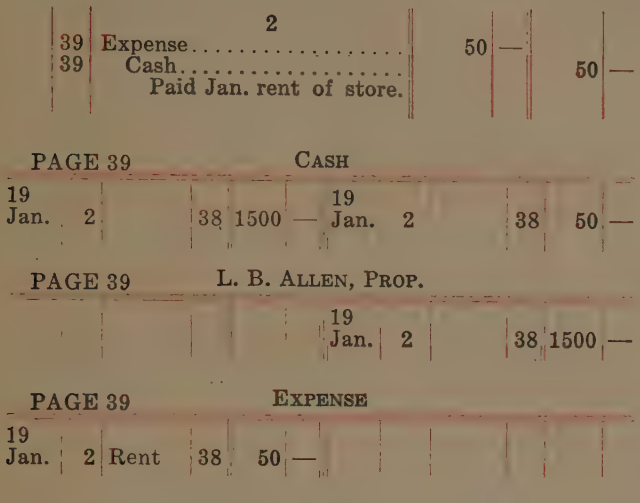
(1) The entry on the first line in the journal indicated that the Cash account was to be debited for $1,500.00. An account was opened in the ledger with Cash and the amount ($1,500.00), the date (Jan. 2), and the page of the journal (38), were written in the appropriate columns on the debit side. Completion of the posting was indicated in the journal by writing the page (39) of the ledger in the folio column on the line with "Cash".

The page of the journal was written in the folio column of the ledger for reference and the page of the account in the ledger was written in the journal to indicate the posting.

(2) The entry on the second line in the journal showed that the account with L. B. Allen, Prop., was to be credited for $1,500.00. An account was opened in the ledger with L. B. Allen, Prop., and the amount ($1,500.00), the date (Jan. 2), and the page of the journal (38) were written in the appropriate columns on the credit side. The posting was indicated in the journal

by writing the page (39) of the ledger in the folio column of the journal on the line with "L. B. Allen, Prop.".

The illustration at the left shows the second journal entry in Illustration 2 and the accounts in the ledger after the second entry was posted. The posting was as follows:



2

39	Expense		50 —	
39	Cash			50 —
	Paid Jan. rent of store.			

PAGE 39 CASH

19					19			
Jan.	2	38	1500 —		Jan.	2	38	50 —

PAGE 39 L. B. ALLEN, PROP.

					19			
					Jan.	2	38	1500 —

PAGE 39 EXPENSE

19								
Jan.	2	Rent	38	50 —				

(1) An account was opened with Expense and the amount ($50.00), the date (Jan. 2), and the journal page (38) written in the appropriate columns on the debit side. The posting was indicated by writing "39", the ledger page of the account in the folio column of the journal at the left of "Expense". (2) The amount ($50.00), the date (Jan. 2), and the page of the journal (38) were written on the credit side of the Cash account already opened. The posting was indicated in the journal by writing "39" the page of the ledger in the folio column of the journal at the left of "Cash".

The ledger on page 39 shows the posting of all eutries in the journal on page 32. This journal, after the entries are posted, is shown on page 38. The process of posting each amount was as explained in the previous discussion and in the summary which follows.

SUMMARY OF POSTING

It will be observed from the two illustrations that the posting is completed in the following manner:

(1) Post the amount of the debit entry. Open the account if it is not already opened in the ledger.

(2) Post the date including the year, month and day of the month for the debit entry. The year and month are not written or dittoed if either is in the account as a result of previous posting.

(3) Post the page of the book of original entry to the folio column in the ledger.

(4) Write the page of the account in the ledger in the folio column on the line with the name of the account in the journal. This shows that the amount has been posted and where it has been posted.

The credit amount in each entry is posted in the same order as the debit amount: first, the amount; second, the date; third, the page in the journal; and fourth, the page of the ledger to the journal.

January 2, 19

39	Cash		1500 —	
39	L B Allen Prop			1500 —
	Investment in the flour business.			
	2			
39	Expense		50 —	
39	Cash			50 —
	January rent of stores.			
	3			
39	Purchases		1192 50	
39	Cash			1192 50
	Purchased 150 bbls. flour at $7.95.			
	5			
39	Cash		746 25	
39	Sales			746 25
	Sold 75 bbls. flour at $9.95			
	10			
39	Purchases		914 25	
39	Cash			914 25
	Purchased 115 bbls. flour at $7.95			
	14			
39	Cash		348 25	
39	Sales			348 25
	Sold 35 bbls. flour at $9.95			
	16			
39	Expense		4 50	
39	Cash			4 50
	Telephone services for January.			
	20			
39	Cash		626 85	
39	Sales			626 85
	Sold 63 bbls. flour at $9.95.			
	31			
39	Expense		86 50	
39	Cash			86 50
	Delivery charges on flour sold.			

Illustration 4, Journal After Posting

Cash

19						19					
Jan.	2		38	1500	—	Jan.	2		38	50	—
	5		38	746	25		3		38	1192	50
	14		38	348	75		10		38	914	25
	20	973.60	38	3226	85		16		38	4	50
							31		38	2867	50

L. B. Allen Prop.

19						19					
						Jan.	1		38	1500	—

Sales

19						19					
						Jan.	5		38	746	25
							14		38	348	75
							20		38	3226	85

Purchases

19											
Jan.	3		38	1192	50						
	10		38	914	25						

Expense

19											
Jan.	2	Rent	38	50	—						
	16	Telephone	38	4	50						
	31	Delivery charges	38	86	50						

Illustration 5, Ledger Resulting from Posting Illustration 4

The information written in the explanation column of the Expense account describes the nature of the expense. Separate accounts may be kept with each class of expense if desired as explained on page 21.

Proof. The bookkeeper is interested in knowing that he has followed the directions for posting as indicated by the entries in the journal. Since the debit amount in each journal entry equals the credit amount, it is quite evident that the total debits in the ledger should equal the total credits or the total of the debit balances should equal the total of the credit balances. The method of effecting this proof is through the *Trial Balance.*

Trial Balance. A list of the accounts in the ledger with the total debits and the total credits or the account balance written on the line with the account

is referred to as a Trial Balance. Its purpose is to prove the equality of debits and credits in the ledger. Two columns are provided for amounts, one in which to enter debit totals or debit balances and one in which to enter credit totals or credit balances.

The illustration below shows a Trial Balance with debit and credit totals prepared from the ledger on page 39. This is referred to as a *Trial Balance of Totals*. The sum of the debit totals equals the sum of the credit totals which indicates that the ledger is in balance, that is, the debit amounts equal the credit amounts.

The amounts stated in this Trial Balance are the small figures which show the totals of columns in the ledger. The figures in the column at the left of the account titles are the page in the ledger on which the accounts appear.

L. B. Allen
Trial Balance, January 31, 19

39	Cash	3221 35	2247 75
39	L. B. Allen Prop.		1500 —
39	Sales		1721 35
39	Purchases	2106 75	
39	Expense	141 —	
		5469 10	5469 10

Illustration 6, Trial Balance of Totals

The illustration below is a *Trial Balance of Balances* prepared from the ledger on page 39. With the exception of cash, the amounts are the same as those in the Trial Balance above; the amount on a line with Cash is the difference between the debit total and the credit total. This is the amount shown in small figures in the explanation column on the debit side of the Cash account; if desired, this subtraction may be shown in pencil in the explanation column of the account.

L. B. Allen
Trial Balance, January 31, 19

39	Cash	973 60	
39	L. B. Allen Prop.		1500 —
39	Sales		1721 35
39	Purchases	2106 75	
39	Expense	141 —	
		3221 35	3221 35

Illustration 7, Trial Balance of Balances

Either form of Trial Balance is satisfactory, but since the account balance more often expresses its real meaning, it is better to use the balance of each account when preparing the Trial Balance.

Unless otherwise instructed, the student will use the balance of each account when preparing a Trial Balance.

Trial Balance Out of Balance. When the total of the amounts entered in the first column of the Trial Balance does not equal the total of the amounts entered in the second column, the Trial Balance is said to be *out of balance.* A Trial Balance out of balance indicates an error or errors in

(1) Journalizing;
(2) Posting;
(3) Addition and subtraction in the accounts;
(4) Listing the account balances on the Trial Balance; or
(5) Addition of the Trial Balance.

To detect the error or errors it will be necessary to check the work; this is usually done in the reverse of the order in which it was first completed.

The Trial Balance will not detect errors in principles. This further emphasizes the importance of understanding the meaning of assets, proprietorship, income and expenses, and the changes in these elements brought about through transactions completed. In other words, the Trial Balance proves only that the ledger is in balance.

Ascertaining Proprietorship. Either Trial Balance illustrated is an equation because the sum of the debit amounts equals the sum of the credit amounts. Neither of these Trial Balances, however, will show an equation in which "Assets = Proprietorship" because the cost of the merchandise sold has not been recorded. Proprietorship and net profit may be ascertained from the account balances on the Trial Balance and the merchandise inventory through equations as illustrated on page 25.

L. B. Allen wishes to ascertain his proprietorship and net profit January 31. It will be necessary to prove the cash and ascertain the merchandise inventory before this information can be secured.

A count of the cash January 31 showed $973.60. This agrees with the balance of the Cash account as stated on the Trial Balance. The merchandise inventory ascertained by a count is $862.45.

An equation prepared from either Trial Balance on page 40 is:

CASH $973.60 = L. B. ALLEN, PROP. $1500.00 + SALES $1721.35 − PURCHASES $2106.75 − EXPENSES $141.00

The account balances are arranged in the order in which they appear in the ledger on page 39. The Purchases and Expense accounts each have a debit balance which means that if placed on the left side of the equation, they would be indicated by a plus sign or on the right side of the equation by a minus sign.

The following equations in statement form show L. B. Allen's proprietorship, his net profit, and a proof of the proprietorship.

(1) A statement showing Assets = Proprietorship.

Cash (Cash account)	$ 973.60	
Mdse. Inv. (Flour on hand)	862.45	
Assets	$1836.05	= L. B. Allen, Prop. $1836.05

(2) A statement showing profit on sales and net profit.

Sales (Sales account)		$1721.35
Purchases (Purchases account)	$2106.75	
Less Mdse. Inventory (Flour on hand)	862.45	
Cost of Flour Sold		1244.30
Profit on Sales		477.05
Less Expenses (Balance of Expense account)		141.00
Net Profit		336.05

(3) A statement showing proof of proprietorship.

Beginning Investment (Proprietorship acct.)	$1,500.00
Net Profit	336.05
Present Proprietorship	$1,836.05

SUMMARY OF ACCOUNTS

At the beginning of the business, the sum of the balances of the asset accounts equals the balance of the proprietorship account. Transactions produce changes in the nature and amount of the assets and in the amount of the proprietorship. These changes are recorded on the debit and credit sides of the accounts affected.

Increases in assets and increases in expense are *debits*.

Decreases in assets and increases in income are *credits*.

The purpose of the accounts in the ledger on page 39 may be briefly summarized as follows:

The Cash Account is a record of the changes in the asset cash. It is *debited* with the increases, $3,221.35, and *credited* with the decreases, $2,247.75. The *debit balance*, $973.60, is an asset, and is proved by counting the cash.

L. B. Allen, Prop., Account is a record of the investment. It is *credited* with the beginning investment $1,500.00. The *credit balance* shows the net investment.

The Sales Account is a record of the income through sales. It is *credited* with the increases, $1,721.35, the selling price of the merchandise sold. The *credit balance* shows the net sales.

When it is desired to ascertain the proprietorship, the cost of sales is deducted from the Sales account to ascertain the profit on sales.

The Purchases Account is a record of the merchandise purchased for sale. It is *debited* with the increases, $2,106.75, the cost price of merchandise purchased. The *debit balance* shows the net purchases.

When it is desired to ascertain the proprietorship, the value of the merchandise inventory is subtracted from the total purchases to ascertain the cost of sales.

The Expense Account is a record of the expenses of operating the business. It is *debited* for $141.00, the increases in expenses, because increases in expenses are decreases in proprietorship. The *debit balance* shows the total expense to be subtracted from the profit on sales to ascertain the net profit.

Exercise 19, Posting and Trial Balance

(ORAL OR WRITTEN)

1. How will each of the entries below be posted?

April 1, 19

Cash		900	—		
L. B. Judd, Prop.				900	—
2					
Expense		25	—		
Cash				25	—
3					
Purchases		475	—		
Cash				475	—

April 4, 19

Cash		250	—		
Sales				250	—
5					
Purchases		100	—		
Cash				100	—
6					
Expense		12	50		
Cash				12	50

2. If the Sales account shows a balance of $1,265.50 and the amount is entered on the Trial Balance as a credit of $1,256.05, what effect will this error have on the Trial Balance?

3. R. A. Byer, to whom merchandise was sold for cash, returned a part of the merchandise and $2.00 cash was paid him for it. Through error, the bookkeeper debited the Purchases account. (a) What effect will this error have on the total debit column and the total credit column of the Trial Balance? (b) What effect will it have on the balances of the Purchases and Sales accounts?

4. The Expense account shows a balance of $22.50. This is listed on the Trial Balance in the credit column. What effect will the error have on the Trial Balance?

5. Cash, $10.16, was paid for expenses and recorded in the journal shown at the right. What effect would it have on the Trial Balance if the bookkeeper failed to post (a) the debit entry? (b) the credit entry? (c) both the debit and credit entries?

Expense.		10	16		
Cash				10	16

6. The bookkeeper for a local drug store which does a cash business counts cash at the end of the day and finds there is $1.00 more cash on hand than shown by the balance of the Cash account. (a) What effect will this error have on the Trial Balance? (b) What are some of the reasons for an error of this kind?
7. How does the bookkeeper prove the balance of the Cash account?
8. (a) What is the purpose of the Trial Balance? (b) What does it prove?
9. If the two sides of the Trial Balance are not equal, how may the bookkeeper detect the error?
10. May 31, the balance of the Purchases account is $1,485.60, the balance of the Sales account is $2,355.40, and the merchandise inventory ascertained by count is $125.00. (a) What is the cost of goods sold? (b) What is the profit on sales?

Exercise 20, Journalizing, Posting and Trial Balance

Journalize the following transactions, completed by L. J. Craig during the month of May:

1. L. J. Craig invested $1,200.00 in the office supplies business.
2. Paid rent for May, $65.00.
3. Paid cash for merchandise purchased, $651.50.
5. Received cash for sales of merchandise, $216.40.
7. Received cash for merchandise returned to the one from whom it was purchased, $21.65.
14. Paid cash for merchandise purchased, $213.00.
15. Received cash for sales of merchandise, $327.50.
16. Paid cash to clerk for salary to date, $37.50.
21. Paid A. C. Day $2.50 for merchandise which he returned.
31. Received cash for sales of merchandise, $265.55.
31. Paid the clerk $37.50, salary for the second half of the month.

A count of the cash showed a balance of $1,024.10; the value of the merchandise ascertained by taking stock was $335.75.

Instructions. (1) Post the journal entries (allow ten lines for each account), and take a Trial Balance. The accounts should be arranged in the same order as in the ledger on page 39.

(2) Prepare statements showing (a) the present proprietorship, (b) net profit, and (c) proof of proprietorship in the same form as shown on page 42.

Exercise 21, Posting and Trial Balance

The journal in the illustration on page 45 contains a record of the transactions completed by A. H. Cowen, a retail clothing merchant. Post to accounts

with Cash (10), A. H. Cowen, Prop. (4), Sales (6), Purchases (6) and Expense (5); the figures in parenthesis indicate the number of lines required for the account. Enter the page of the text (45) in the folio column of the ledger but do not enter the page of the ledger in the folio column of the journal unless instructed to do so. Take a Trial Balance.

October 1, 19

	Cash		2500 —		
	A. H. Cowen, Prop.				2500 —
	Investment in the retail clothing business.				
	2				
	Expense		75 —		
	Cash				75 —
	Paid October rent.				
	5				
	Purchases		846 50		
	Cash				846 50
	Paid cash for merchandise purchased.				
	8				
	Cash		180 —		
	Sales				180 —
	Received cash for merchandise sold.				
	13				
	Purchases		275 80		
	Cash				275 80
	Paid cash for merchandise purchased.				
	15				
	Purchases		8 45		
	Cash				8 45
	Paid cash for merchandise purchased.				
	18				
	Cash		327 50		
	Sales				327 50
	Received cash for merchandise sold.				
	22				
	Sales		12 50		
	Cash				12 50
	Paid cash for merchandise returned.				
	26				
	Cash		165 40		
	Sales				165 40
	Received cash for merchandise sold.				
	29				
	Sales		2 50		
	Cash				2 50
	Paid cash for merchandise returned.				
	31				
	Expense		85 —		
	Cash				85 —
	Paid clerk for October services.				

Exercise 22, Journalizing from the Ledger

March 1, Martin L. Dailey invested $2,000.00 in the retail furniture business. His investment and the eleven transactions completed during the month of March are shown recorded in the following ledger:

CASH

19						19					
Mar.	1		1	2000	—	Mar.	2		1	90	—
	8		1	371	50		3		1	1650	—
	10		1	11	75		5		1	18	75
	12		1	65	—		15		1	50	—
	18		2	292	50		27		2	5	50
	25		2	350	50		30		2	50	—
				3091	25					1864	25

MARTIN L. DAILEY, PROP.

						19					
						Mar.	1		1	2000	—

SALES

19						19					
Mar.	27	Return	2	5	50	Mar.	8		1	371	50
							12		1	65	—
							18		2	292	50
							25		2	350	50
										1074	00

PURCHASES

19						19					
Mar.	3		1	1650	—	Mar.	10	Return	1	11	75
	5	Freight	1	18	75						
				1675	00						

EXPENSE

19					
Mar.	2	Rent	1	90	—
	15	Salaries	1	50	—
	30	Salaries	2	50	—

Instructions. (1) Record in journal form the same information shown in this ledger, arranging the transactions in the order of their completion, beginning with March 1. For example, the transaction of March 1 requires an entry in which Cash is debited and Martin L. Dailey, Prop., is credited for the investment; the transaction of March 2, an entry in which Expense is debited and Cash is credited because of payment of cash for March rent; the transaction of March 3, an entry in which Purchases is debited and Cash credited because of cash paid for merchandise purchased; the transaction of March 5, an entry in which Purchases is debited and Cash credited because of payment of freight, etc.

(2) The cash on hand is $1,227.00; prove this to be correct by comparing it with the balance of the Cash account.

(3) Take a Trial Balance.

CHAPTER V

SALES FOR CASH AND ON CREDIT

The discussion in the preceding chapters referred to the information needed by the owner when cash is received for all merchandise sold at the time of the sale. When cash is not received at the time of the sale, additional information is needed. The nature of this additional information and the method of securing it are discussed in this chapter.

Sales on Credit. There are two principal methods of selling; (a) for cash, and (b) on credit. When cash is received at the time the sale is made, the transaction is referred to as a *cash sale.* When cash is not received for the merchandise sold at the time of the sale, but instead is to be received later, the transaction is referred to as a *charge sale,* a *sale on credit* or a *sale on account.*

The one to whom merchandise or service is sold is referred to as a *customer.* The customer from whom cash is received at the time of the sale is a *cash customer;* the customer from whom cash is received at a date later than the date of the sale is referred to as a *charge customer.*

When a charge sale is made, a definite time for collection is expressed or implied. With retail merchants the implied time is usually the first of the month following the date of the sale. With a wholesale merchant the time is usually stated in definite terms, that is, a designated number of days after the date of the sale. Thus, a sale made by a retail merchant on April 17 will be due May 1; a sale made by a wholesale merchant on April 14 with terms "30 days" will be due May 14.

Information Needed in Connection with Charge Sales. When cash is received from a customer at the time the sale is made, it is not necessary to record the name of the customer because the exchange of merchandise for cash completes the transaction.

When the customer takes the merchandise and agrees to pay for it in the future, it is necessary to record (a) the date of the sale, (b) his name and address, (c) a description of the article or articles sold, (d) the amount of the sale, and (e) the terms.

When cash or other assets are received from a charge customer for part or all of his indebtedness, it will be necessary to record the date, his name, and the amount of cash or other assets received.

The information regarding charge sales referred to in the preceding paragraphs may be obtained through an account with each charge customer. The record of the transactions with a charge customer must be such that the balance of his account will show the amount he owes and the due date of each sale. The title of the account will be the name and address of the charge customer.

An account with a charge customer is referred to as an *account receivable.* It is an asset since it has a definite cash value and will later be exchanged for the asset cash. The sum of the balances of all accounts with charge customers is known as the asset *Accounts Receivable.*

Recording Cash and Charge Sales. A cash sale results in an increase in the asset cash and an increase in the income sales, hence requires a debit to the Cash account and a credit to the Sales account.

A charge sale results in an increase in the asset accounts receivable and an increase in the sales, hence requires a debit to the account with the charge customer (an asset) and a credit to the Sales account.

Cash or other assets received from a charge customer for a part or all of his account constitute an exchange of one asset for another of equivalent value. Cash or the asset account which records the increase is debited and the account with the charge customer credited.

March 1. R. L. Haynes, a retail dealer in trunks and bags, has the following assets which are used in his business: Cash $1,000.00, trunks and bags in stock $650.00.

Stated in equation form his assets and proprietorship are:

CASH $1000.00 + MDSE. INVENTORY $650.00 = R. L. HAYNES, PROP. $1650.00

The illustration at the right shows the facts stated in this equation recorded in journal form. The reason for the debits and credit has been previously explained. A journal entry with more than one debit or more than one credit is referred to as a *compound journal entry.*

March 1, 19

50	Cash	1000 —		
50	Mdse. Inventory	650 —		
50	R. L. Haynes, Prop.			1650 —
	Assets owned by the business on this date.			

March 7. Sold R. C. Dunn, 200 Main St., City, one trunk $30.00 and one bag $12.00; terms, 10 days.

This transaction increases the asset accounts receivable (R. C. Dunn) and increases the sales, $42.00. The journal entry to record the transaction is in the illustration at the left. The account with R. C. Dunn is debited to record the increase in assets and the Sales account credited to record the increase in the sales.

7

50	R. C. Dunn, 200 Main St...	42 —	
50	Sales		42 —
	Sold 1 trunk, $30.00; 1 bag, $12.00; terms 10 days.		

March 8. Received $75.00 in cash from Miss Annie Bates for a wardrobe trunk sold her today.

This is a cash sale, hence results in an increase in the asset cash and an increase in the sales. The illustration at the right shows the journal entry for recording this transaction. The Cash account is debited to record the increase in the asset cash and the Sales account credited to record the increase in sales. The name of the customer is not recorded on the ledger because it is a cash sale.

	8			
50	Cash		75 —	
50	Sales			75 —
	Sold 1 wardrobe trunk for cash.			

March 10. R. C. Dunn returned the bag sold him on the 7th and was allowed a credit of $12.00, the sale price.

The amount R. C. Dunn owes the business is reduced by $12.00; hence, this transaction results in a decrease in the asset accounts receivable (R. C. Dunn) and a decrease in the sales. The illustration at the left shows the journal entry for recording this transaction. The Sales account is debited to indicate the *subtraction* in the Sales account. The account with R. C. Dunn is credited to show the *subtraction* in his account.

	10			
50	Sales		12 —	
50	R. C. Dunn			12 —
	Returned bag bought on 7th and allowed credit for sale price.			

March 11. Sold R. C. Dunn, one bag, $32.50; terms, 30 days.

This transaction increases the asset accounts receivable (R. C. Dunn) and increases sales the same amount. The illustration at the right shows the journal entry for recording this transaction. The debit to R. C. Dunn's account records the increase in the asset accounts receivable and the credit to the Sales account, the increase in sales.

	11			
50	R. C. Dunn		32 50	
50	Sales			32 50
	Sold 1 bag, $32.50; terms 30 days.			

March 17. Received $30.00 cash from R. C. Dunn in payment of the balance due on the sale of March 7.

This transaction increases the asset cash and decreases the asset accounts receivable (R. C. Dunn). The illustration at the left shows the journal entry for recording the transaction. The Cash

	17			
50	Cash		30 —	
50	R. C. Dunn			30 —
	Received cash for balance due on sale of March 7.			

account is debited to record the increase in the asset cash and the account with R. C. Dunn is credited to record the decrease in the amount to be collected from him.

The Ledger at the right shows the results of posting the six journal entries on pages 48 and 49. The account with R. C. Dunn shows (a) his name and address, (b) two sales, one on the 7th and the other on the 11th, (c) terms on each sale, (d) page of the book of original entry for reference if the items sold to him are desired, (e) return of a part of the merchandise with page of the journal if a description of the article returned is desired, and (f) collection of balance due on sale of March 7.

The account with a charge customer is ruled at the point where it balances on the same blue line on each side as explained on page 55. In the illustration at the right, it is not possible to rule the line exactly opposite because two collections equal one charge, and a second charge was entered before the final collection.

CASH

19											
Mar.	1			48	1000	—					
	8			49	75	—					
	17			49	30	—					
					1105						

R. C. DUNN 200 Main St., City

19						19					
Mar.	7	10 da.	48	42	—	Mar.	10	Ret.	49	12	—
	11	30 da.	49	32	50		17		49	30	—

MERCHANDISE INVENTORY

19											
Mar.	1			48	650	—					

R. L. HAYNES, PROP.

						19					
						Mar.	1		48	1650	—

SALES

19						19					
Mar.	10	Ret.	49	12	—	Mar.	7		48	42	—
							8		49	75	—
							11	137.50	49	32	50
										149	50

The account with a customer should contain all the information needed by the one who is authorized to extend credit to him, with page references for additional information if desired. The charge customer who pays his obligations in accordance with the terms will establish a good *credit rating*.

A Trial Balance prepared from the account balances in the above ledger is in the illustration at the right. This Trial Balance shows that the sum of the debit balances of the accounts in the ledger is equal to the sum of the credit balances.

R. L. HAYNES
TRIAL BALANCE, March 17, 19

50	Cash	1105 —	
50	R. C. Dunn	32 50	
50	Merchandise Inventory	650 —	
50	R. L. Haynes, Prop.		1650 —
50	Sales		137 50
		1787 50	1787 50

The account balances on this Trial Balance may be stated in equation form, but the equation will not show "Assets = Proprietorship" because the cost of sales has not been recorded.

If the cash on hand proves with the cash record and the value of the merchandise inventory, March 17, is $600.00, the following statements may be prepared from the account balances on the Trial Balance and the merchandise inventory. These three statements provide present proprietorship, net profit, and proof of the proprietorship.

(1) A statement showing "Assets = Proprietorship":

Cash	$1105.00	
Accounts Receivable	32.50	
Mdse. Inventory	600.00	
Total Assets	$1737.50	= R. L. Haynes, Prop., $1737.50

(2) A statement showing profit on sales and net profit.

Sales (Trial Balance)		$ 137.50
Merchandise Inventory (Trial Balance)	$650.00	
Less Merchandise Inventory 3/17	600.00	
Cost of Merchandise Sold		50.00
Profit on Sales		87.50

There were no purchases, hence the cost of sales is the difference between the beginning and ending inventories.

(3) A statement showing proof of proprietorship.

R. L. Haynes, Beginning Proprietorship	$1650.00
Profit	87.50
R. L. Haynes, Present Proprietorship	$1737.50

Exercise 23, Sales for Cash and on Credit

(ORAL OR WRITTEN)

1. "Received cash $55.00 for merchandise sold." State the journal entry required to record this transaction using the current date.

2. "Sold J. L. Way on credit 3 gallons floor varnish @ $2.25 per gallon." State the journal entry required to record this transaction.

3. "L. B. Johnson, a charge customer, returned to us merchandise, $2.50." State the journal entry required to record this transaction.

4. How will the amounts in the equation below appear in the accounts?

CASH $250.00 + C. H. LAY $50.00 + PURCHASES $300.00 = A. J. KNIGHT, PROP. $350.00 + SALES $300.00 − EXPENSE $50.00

5. (a) What entry in the journal was required to record the debit and credit shown in the two accounts at the right? (b) Is L. B. Johnson a charge customer or a cash customer? (c) How much does L. B. Johnson owe?

L. B. JOHNSON — City

19 Oct.	5			12		37	85							

SALES

								19 Oct.	5			12	37	85

6. (a) What entry in the journal was required to record the debit to the Cash account and credit to the account with S. B. McGuire in the illustration at the left? (b) What effect does this transaction have on the assets and income?

CASH

19 July	5			9		55	85							

S. B. MCGUIRE — City

19 June	25			7		55	85	19 July	5			9	55	85

Exercise 24, Journalizing, Posting and Trial Balance

Walter Marx completed the following transactions during September.

1. Invested $2,500.00 in cash in the retail hardware business.
2. Paid September rent, $110.00.
3. Paid $1,850.00 for merchandise.
10. Paid $112.50 for merchandise.
12. Sold R. L. David, 410 Spring St., City, on credit, 10 kegs of nails, $46.00.
13. Received $625.20 for cash sales to date.
15. Paid $65.00 for services of clerks.
15. Sold Arthur Moore, 219 Long St., City, on credit, 1 dozen Yale locks at $1.25 each; 1 hatchet, 90c; 1 keg of nails, $4.25.
18. Received cash from R. L. David in full for sale of Sept. 12.
20. Gave Arthur Moore credit for 90c, one hatchet returned by him.
23. Sold Doyle Construction Co., Danville, on credit, 3 dozen picks at $7.50 per doz., 1 dozen shovels, $17.50, and 25 kegs of nails at $4.10 per keg.
26. Received $19.50 cash for merchandise returned to the seller by agreement.
29. Received cash for one-half of the sale to Doyle Construction Co., Sept. 23.
30. Received $531.25 for cash sales to date.
30. Paid $65.00 for services of clerks.

Instructions. (1) Record each of these transactions in the journal and post. Arrange the accounts as illustrated on page 50; allow nine lines for Cash, eight lines for Sales, and five lines for each of the other accounts.

(2) Prove cash; balance on hand, $1,590.70; and take a Trial Balance.

(3) Prepare statements showing proprietorship, net profit, and proof as illustrated on page 51; merchandise inventory, $1,132.55.

Note Receivable. A written promise received from a charge customer for a part or all of his indebtedness as shown by his account is referred to as a *note receivable*. The one who signs the note is referred to as the *maker*, and the one to whom it is payable, as the *payee*. The date the note is due is referred to as the *maturity* of the note.

A note receivable is an asset for in it the charge customer promises to pay cash at a future time. The note receivable, therefore, has a definite value to the business. Its asset value is ordinarily considered to be the amount promised by the debtor, that is, the amount stated in the note. This amount is referred to as the *face value* of the note. The sum of the face value of all notes receivable belonging to the business is the asset *Notes Receivable*.

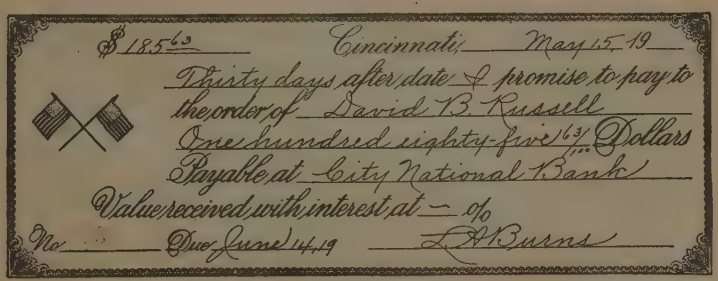
The usual purpose of a note receivable is to allow additional time for collection of the amount due from the charge customer. The discussion of notes receivable in this chapter relates to transactions with charge customers. Notes received and given for other purposes will be explained later.

Recording a Note Receivable. When a note receivable is received from a charge customer, the transaction results in an increase in the asset notes receivable and a decrease in the asset accounts receivable. An account with the title Notes Receivable is debited for the *face of the note* to record the increase in the asset notes receivable. The account with the charge customer is credited to record the decrease in the asset accounts receivable.

Receiving a note from a charge customer does not cancel the amount to be collected from him but only extends the time for making collection. It changes the nature of the asset from accounts receivable to notes receivable. When cash is received from a charge customer for the face value of the note, the transaction results in an increase in the asset cash and a decrease in the asset notes receivable. When cash is received for the note, the note is marked "Paid" and returned to the charge customer.

May 15. David B. Russell, a retail merchant, received from L. A. Burns, a charge customer, a note receivable for $185.63.

The note receivable referred to in this transaction is in the illustration at the right. L. A. Burns, the charge customer, promises to pay $185.63 in 30 days. This promise is made May 15, hence will be due June 14. L. A. Burns still owes the amount, but the debt is now in the form of a written promise, and is payable, not necessarily to David B. Russell, but to the person owning the note when it is due.



The three illustrations at the right marked (a), (b), and (c) show the following information:

(a) The account with L. A. Burns.

(b) The journal entry to record the increase in the asset notes receivable and the decrease in the asset accounts receivable.

(c) The Notes Receivable account and the account with L. A. Burns after the journal entry of May 15 has been posted.

The account with L. A. Burns is now in balance and the asset is recorded in the Notes Receivable account.

(a)

L. A. BURNS — 132 Second St.

19										
May	1			45	150	—				
	9			45	35	63				

(b)

May 15, 19

54	Notes Receivable		185	63	
54	L. A. Burns				185 63
	Received 30-day note in full of account.				

(c)

NOTES RECEIVABLE

19										
May	15	30 da.	54	185	63					

L. A. BURNS — 132 Second St.

19							19					
May	1		45	150	—		May	15	Note	54	185	63
	9		45	35	63							

When cash is received for a note receivable, the transaction results in an increase in the asset cash and a decrease in the asset notes receivable. If cash is received from L. A. Burns, in the preceding illustration, at the maturity of the note, June 14, the entry to record this cash will be as illustrated at the left. The Cash account is debited to record the increase in the asset cash and the Notes Receivable account is credited to record the decrease in the asset notes receivable. The accounts below the journal entry show the result of posting. The Notes Receivable account is ruled because the two sides of the account are equal.

June 14, 19

54	Cash	185 63	
54	Notes Receivable		185 63
	Received cash for note due today.		

CASH

19				
June 14		54	185	63

NOTES RECEIVABLE

19						19				
May	15	30 days	54	185	63	June 14		54	185	63

Combined Cash and Credit Sale. When merchandise is sold to a charge customer and cash is received for a part of the sale, the remainder to be collected at a subsequent date, the transaction is usually recorded in two entries. These are described at the top of page 55.

(1) An entry to record the full amount of the sale as a debit to the account with the charge customer and a credit to Sales.

(2) An entry to record the receipt of cash as a debit to the Cash account and a credit to the account with the charge customer.

May 5. Sold A. C. Collins, 415 Ross St., City, merchandise per sale No. 63, $125.75; terms, cash $50.00; balance 10 days.

The journal entries at the right show the method of recording the transaction by two separate entries. The first entry records the sale and the second entry records the cash received. The accounts below the journal entries show the posting. The balance of the account with the charge customer shows the amount to be collected from him within ten days. If desired, "Cash $50.00, balance 10 days" may be written in the explanation column on the debit side.

May 5, 19

55	A. C. Collins, 415 Ross St..	125 75		
55	Sales			125 75
	Sale No. 63; terms; cash, $50.00; balance, 10 days.			
	5			
55	Cash	50 —		
55	A. C. Collins			50 —
	Received cash in part payment for sale of today.			

CASH

19										
May	5		55	50	—					

A. C. COLLINS 415 Ross St., City

19						19				
May	5	10 da	55	125	75	May	5		55	50 —

SALES

						19				
						May	5		55	125 75

Ruling an Account with a Customer. When the one amount or the sum of the amounts recorded on the credit side of an account with a customer equals the one amount or the sum of the amounts recorded on the debit side, the account is *in balance*. This fact is indicated by ruled lines.

The illustration at the right shows one form of ruling frequently used when cash or some other asset is received from a customer in payment of one or more sales. It will be observed that when possible the lines are ruled without moving the ruler. Where the cash received from a charge customer is for more than one sale, the two or more amounts on the debit side are added to verify the entry on the opposite side. Ruling an account which is not in balance would cause much trouble when a Trial Balance is taken.

M. L. Connor 127 Main St. City

Jan.	15	89.35	9	89	35	Feb.	1		18	89	35
Feb.	5		20	37	35	Mar.	1		37	63	75
	20	63.75	31	26	40						
Mar.	9		42	72	16		9		46	50	
	20	81.76	49	153	92	Apr.	1		53	25	
Apr.	5		57	12	65		10		57	56	75
							12		62	12	65
Apr.	25		68	16	42						

The figures in the explanation column indicate the amounts used on the January, February, and March Trial Balances. The last figure on the debit side is the amount used on the April 30 Trial Balance. The ruled lines make it unnecessary for the items above them to be considered when the account is footed for future Trial Balances.

The illustration below shows another form of ruling for an account with a charge customer. This form is usually employed where the account is balanced after a number of amounts have been recorded on the debit and credit sides. The ruling is placed on the same line on each side and the footings on each side are entered between single and double lines. Single lines are drawn across the money columns only; double lines are drawn across all except the explanation columns. This form of ruling is frequently used when an account is *balanced* and the balance carried down on the same page or carried forward to a new page in the ledger.

L. J. Horner Uniontown

July	1		9	16 47	Aug	1		63	75
	12		23	18 92		15		87	39 75
	27		56	55 83	Sept	1		117	28 50
Aug	16		89	14 21					
	29		99	37 82					
				143 25					143 25

SUMMARY

Account with a Charge Customer. The title of the account with each charge customer is his name and address. The purpose of the account with each charge customer is to record the transactions with him.

Since accounts receivable are assets, the account with each charge customer is *debited* for increases and *credited* for decreases.

The *debit* balance is an asset because it is the amount to be collected from the charge customer. The sum of all the debit balances to be collected from charge customers is the asset accounts receivable.

The Notes Receivable Account is a record of the changes in the asset notes receivable.

The Notes Receivable account is *debited* for increases (face of each note receivable) and *credited* for decreases.

The *debit* balance is the asset notes receivable and agrees with the value of the notes owned by the business.

Exercise 25, Accounts and Notes Receivable

(ORAL OR WRITTEN)

1. "May 16. Received from E. L. Lamb a 60-day note for $187.50 in full of account." How will this transaction be recorded in the journal?
2. "Received from E. L. Lamb $187.50 for note due today." (a) On what date (see Question 1) will this transaction be recorded? (b) How will it be recorded in the journal?

3. State the two journal entries required to record the following transaction: "Sold Robert McFarland 25 bags of Portland Cement at $1.00 per bag, 3 yards of sand at $3.00 per yard, and 1 yard of gravel $4.00. Received cash $20.00, balance to be paid in 10 days."
4. What would be the journal entry to record the facts shown in the accounts at the right?

A. ISAACS	
89.60	

SALES	
	89.60

5. What effect would it have on the Trial Balance if the following transaction is not recorded: "Sold B. C. Adams on 30 days time, 1 No. 7 Eureka Washing Machine, $52.50"?
6. When and how would the bookkeeper discover the error resulting from the failure to record this transaction?
7. Can you suggest some plan which would avoid the possibility of failing to record a charge sale in a retail grocery business where many such sales are made?
8. When and how would the bookkeeper discover the error resulting from failure to record the following transaction: "Received cash for the sale of 1 pair of shoes, $5.00"?
9. (a) When is the account with a customer in balance? (b) How does the bookkeeper indicate this?
10. A. W. Mott, a retail clothing merchant, wishes to write his customers about a bargain sale. How will he ascertain the addresses of (a) the charge customers? (b) the cash customers?

Exercise 26, Recording Transactions, Posting and the Trial Balance

During the month of February, A. B. Wilson, a retail furniture merchant, completed the following transactions:

1. Invested $3,500.00 in cash in the furniture business.
1. Paid $1,700.00 in cash for merchandise purchased.
1. Paid rent for February, in cash, $100.00.
3. Sold C. H. Powers, 211 Walnut St., City, on credit, 1 bedroom suite, $225.00.
7. Sold Walter Rogers, Oakdale, on credit, 1 hatrack, $32.50.
9. Received $625.50 for cash sales.
18. Received from C. H. Powers $125.00 in cash and a note due in ten days for $100.00 in full for sale of the 3d.
21. Received $32.50 in cash from Walter Rogers in full of account
22. Paid $300.00 in cash for merchandise purchased.
25. Sold A. R. David, City, on credit, 1 dining room suite, $350.00. Received $50.00 in cash; balance, 30 days.
26. Sold C. H. Powers, on credit, 3 rockers @ $27.50. Received $50.00 in cash to apply on this sale; balance, 30 days.

The "@" indicates that the price applies to each rocker and that the amount of the sale is three times $27.50.

28. Received from C. H. Powers, $100.00 in cash for note due today.

This note would be similar in form to the one illustrated on page 53.

28. Received from A. R. David a 30-day note for $300.00 in full of account.

28. Paid $125.00 for February salaries.

Instructions. (1) Record each transaction in the journal.

(2) Post to accounts with Cash (10), Notes Receivable (5), C. H. Powers (5), Walter Rogers (4), A. R. David (4), A. B. Wilson Prop. (4), Sales (8), Purchases (5) and Expense (4). The figures in parentheses are the number of lines required for each account.

(3) Prove cash balance, $2,258.00, and take a Trial Balance.

(4) Prepare equations similar to those on pages 42 and 51; merchandise inventory, $1,475.25.

Exercise 27, Transactions With a Customer

The Electric Shop completed the following transactions with A. N. House, 213 Broadway, City, a charge customer, during the months of July and August. Unless otherwise indicated, the terms of the sales are "on account".

July 2. Sold 1 electric percolator, $7.50; 1 flashlight, $2.75.

5. Allowed Mr. House credit for $2.75, sale price of the flashlight which he returned. Sold him an electric fan for $22.50.

10. Sold 1 electric washing machine, $162.50; received cash, $62.50; balance to be paid in 20 days.

16. Sold 1 electric iron, $6.50; 1 electric toaster, $4.20.

30. Received $50.00 in cash and a 15-day note for $50.00, balance due on sale made July 10.

31. Received $40.70 in cash in full of account.

Aug. 12. Sold 1 chandelier, $25.00; 10 lamp shades @ 75c; 10 lamps @ 35c.

14. Received $50.00 in cash for note due today.

20. Sold 200 ft. No. 10 wire, $1.00; 1 vacuum cleaner, $69.50.

26. Received $36.00 in full for sale of August 12.

28. Sold 1 clothes drier, $125.00. Received cash, $50.00; balance 30 days.

Instructions. (1) Record the July transactions in the journal and post to accounts with Cash (9), Notes Receivable (4), A. N. House (10), and Sales (8). Rule A. N. House's account as in the illustration on page 56. Take a Trial Balance.

(2) Record the August transactions in the journal and post to the same accounts that you opened for July. Rule the accounts where they balance as in illustration on page 55. Take a Trial Balance.

CHAPTER VI

PURCHASES FOR CASH AND ON CREDIT

When one person sells merchandise on credit, obviously the one with whom he is dealing buys on credit. The discussion in this chapter relates to the purchase of merchandise on credit and the accounts needed to record the desired information.

Liability. The proprietor's promise to pay a certain amount, usually in cash, at some time in the future is known as a *liability*. The promise may be implied, verbal or written. One may incur a liability through an implied contract, later confirm it by a verbal contract, and still later make it more definite by a written contract, but the liability exists equally in all three cases. A liability may be paid with property other than cash, but the usual custom is to pay with cash at the time agreed upon.

Reason for Liabilities. A liability is usually incurred to secure additional assets needed in the operations of a business. The owner of the business has three means of securing assets, (a) through investment, (b) through incurring a liability by borrowing money, and (c) through incurring a liability by purchasing merchandise or other property with the understanding that it is to be paid for in the future. When the need for additional assets is only temporary, it is customary to secure these assets through borrowing or purchasing on credit.

Effect of Liabilities on Assets and Proprietorship. When one increases his assets by incurring liabilities, he has not increased his wealth nor his proprietorship since it is necessary for him to pay his liabilities in the future. The total assets, therefore, equal the proprietorship plus the amount owed. This may be shown by the equation:

ASSETS = LIABILITIES + PROPRIETORSHIP

The above equation is simply an expansion of the equation, assets = proprietorship. The creditors have a claim against the assets of the owner, hence the amount of all the assets equals the claims of creditors plus the owner's proprietorship.

Since liabilities are to be paid out of the assets, the equation is sometimes expressed as:

ASSETS − LIABILITIES = PROPRIETORSHIP

The final results are the same in either equation. The owner's proprietorship is his equity in the assets which is the same whether the claims of creditors are subtracted from the sum of the assets or added to the proprietorship.

Purchases on Credit. When merchandise or other property is purchased by the owner of the business but payment is not made until a subsequent date, the purchase is said to be *on credit* or *on account.* The one from whom the purchase is made is referred to as a *creditor.* The terms of payment are agreed upon, usually in the same manner as explained in connection with charge sales on page 47.

When a purchase is made on account, it is necessary to record (a) the date of the purchase, (b) the name and address of the creditor, (c) information regarding the property purchased, (d) the amount of the purchase, and (e) the terms. When cash is paid a creditor in accordance with the terms, it is again necessary to record the date, the name of the creditor, and the amount of cash paid. The purchase increases the liability and the cash payment decreases the liability.

The information needed regarding liabilities because of purchases on account, like all other accounting information, is provided through an account with each creditor. The title of each account is the name and address of the creditor. The account with each creditor is a liability. The sum of the account balances with all creditors is the liability *accounts payable.*

With full information regarding his liabilities, the owner can take the proper steps to secure the assets with which to pay them and thus maintain a good *credit rating.*

Recording Purchases on Credit. A purchase of merchandise on credit increases the asset merchandise. It does not increase the proprietorship but instead the liabilities. The two sides of the equation "Assets = Liabilities + Proprietorship" are, therefore, increased equally. The Purchases account is debited to record the increase in assets and the account with the creditor credited to record the increase in liabilities.

When cash is paid to a creditor, the transaction involves the decrease of an asset and the decrease of a liability. Cash is credited to record the decrease in the asset cash and the account with the creditor is debited to record the decrease in the liability accounts payable.

June 1. L. S. Cole invested $600.00 cash in the produce business.

This investment is stated in equation form as follows:

CASH $600.00 = L. S. COLE, PROPRIETORSHIP $600.00

The illustration at the right shows the facts in this equation recorded in journal form. The debit to the Cash account shows $600.00 cash on hand at the beginning of business. The credit to the proprietorship account shows that L. S. Cole's proprietorship is $600.00.

	June 1, 19		
62	Cash	600 —	
62	L. S. Cole, Prop.		600 —
	Invested cash in the produce business.		

June 2. Paid $250.00 in cash for produce purchased.

This transaction increases the asset merchandise and decreases the asset cash, each $250.00.

The illustration at the right shows the journal entry for recording this transaction. The Purchases account is debited to record the increase in the purchases and the Cash account is credited to record the decrease in the asset cash.

	2			
62	Purchases	250 —		
62	Cash		250 —	
	Bought produce for cash.			

June 4. Purchased from the Central Produce Company, Ashland, on credit, produce, $450.00.

This transaction increases the purchases and increases the liability accounts payable, each $450.00.

The illustration at the left shows the transaction recorded in journal form. The Purchases account is debited to record the increase in purchases thus adding the $450.00 to the previous purchase. The account with the Central Produce Company is credited to record the liability accounts payable.

	4		
62	Purchases	450 —	
62	Central Produce Co., Ashland		450 —
	Bought produce on credit.		

June 8. Returned to the Central Produce Company $50.00 worth of the produce purchased on June 4.

This transaction decreases the liability accounts payable because L. S. Cole now owes the Central Produce Company $50.00 less; the transaction also decreases the purchases $50.00.

The illustration at the right shows this transaction recorded in journal form. The account of the Central Produce Company is debited because the amount is to be subtracted from the indebtedness due this firm as recorded on the credit side of their account. The Purchases account is credited because this amount is to be subtracted from purchases.

	8		
62	Central Produce Co.	50 —	
62	Purchases		50 —
	Returned part of produce purchased on June 4.		

June 9. Purchased from Staples & Lake, City, on 20 days' time, produce, $200.00.

This transaction increases the purchases and increases the liability accounts payable, each $200.00.

The illustration below shows this transaction recorded in journal form. The Purchase account is debited to record the increase in the asset merchandise; the account with Staples & Lake is credited to record the increase in the liability accounts payable.

	9			
62	Purchases	200 —		
62	Staples & Lake, City		200 —	
	Purchased on 20 days time.			

June 30. Paid the Central Produce Company $300.00 on account of purchase of the 4th.

This transaction decreases the asset cash and decreases the liability accounts payable, each $300.00.

The entry in the illustration at the right shows the transaction recorded in journal form. The account with the Central Produce Company is debited to record the decrease in the liability accounts payable; the Cash account is credited to record the decrease in the asset cash. Paying a liability reduces the assets and the liabilities the same amount.

	30		
62	Central Produce Company..	300 —	
62	Cash		300 —
	Paid on account of purchase of the 4th.		

The Ledger in the illustration at the right is the result of posting the six journal entries on pages 60, 61 and 62. The balance of the Cash account, $50.00, shows the amount of cash on hand. This is proved by counting the money. The balance of the Purchases account shows the net purchases.

The balance of the account with the Central Produce Company shows the amount of the indebtedness to this company which is due July 1; see page 47. The balance of the account with Staples & Lake shows the amount of the indebtedness to this firm which was due June 29.

CASH

19						19					
June	1	50.00	60	600	—	June	2		61	250	—
							30		62	300	—
										550	

PURCHASES

19						19					
June	2		61	250	—	June	8		61	50	—
	4		61	450	—						
	9	850.00	62	200	—						
				900							

CENTRAL PRODUCE CO. Ashland

19						19					
June	8		61	50	—	June	4	100.00	61	450	—
	30		62	300	—						
				350							

STAPLES & LAKE City

						19					
						June	9	20 days	62	200	—

L. S. COLE, PROP.

						19					
						June	1		60	600	—

A Trial Balance prepared from the ledger at the bottom of page 62 is in the illustration at the left. The sum of the debit balances equals the sum of the credit balances, hence the ledger is in balance. An equation in which Assets = Liabilities + Proprietorship prepared in statement form from the account balances in the Trial Balance is as follows:

TRIAL BALANCE

62	Cash	50 —	
62	Purchases	850 —	
62	Central Produce Co.		100 —
62	Staples & Lake		200 —
62	L. S. Cole, Prop.		600 —
		900 —	900 —

Cash	$ 50.00	Central Produce Co.	$100.00
Mdse. Inv.	850.00	Staples & Lake	200.00
Assets	$900.00 = Liabilities		$300.00 + L. S. Cole, Prop., $600.00

Since there have been no sales the merchandise inventory is equal to the balance of the Purchases account; the title "Merchandise Inventory" is used in the statement because it is the title that indicates the value of merchandise in stock at the time proprietorship is ascertained.

It will be observed that purchases of merchandise on credit do not affect the proprietorship. Each purchase increases the assets on the left side of the equation and the liabilities on the right side the same amount. The payment of a liability decreases the assets and decreases the liabilities the same amount.

Exercise 28, Purchases for Cash and on Credit

(ORAL OR WRITTEN)

1. "Purchased from A. L. Shaw merchandise, $187.50; terms, 10 days." (a) How will this transaction be recorded in the journal of James Holt, the purchaser? (b) How will the journal entry be posted?

2. July 1. D. H. Lowe began business with the following assets: cash, $625.00, and merchandise inventory, $850.00. R. L. Norton, a charge customer, owes him $250.00. He owes Green Bros. for merchandise purchased, $280.00. (a) State his proprietorship in equation form. (b) State the information shown in the equation in the form of a journal entry. (c) State the accounts resulting from posting the journal entry.

3. D. H. Lowe paid Green Bros. $280.00 which he owed them. State the entry necessary to record this transaction in the journal.

4. D. H. Lowe received $250.00 from R. L. Norton for the amount owed by him. State the entry necessary to record this transaction in the journal.

5. (a) State the journal entry from which the transaction of June 1 was posted. (b) The transaction of June 5. (c) What is the maturity of the June 1 purchase? (d) What amount will be required to pay the indebtedness to W. O. Lady at maturity?

PURCHASES

19						19					
June	1		16	216	75	June	5	Ret.	17	13	50

W. O. LADY

19						19					
June	5	Ret.	17	13	50	June	1	30 da.	16	216	75

6. (a) Is the account at the left an account with a customer or creditor? (b) If the balance stated in the account is entered on the Trial Balance as stated, what effect will the error have on the Trial Balance?

W. O. WATSON — City

19					19				
May	26		50	—	May	17	10 da.	92	50
	31		25	—		22	30 da.	131	39
			75	—			*158.89*	*223*	*89*

7. The account balance shown in the account at the right is entered on the May 31 Trial Balance as stated. (a) What effect will this error have on the Trial Balance? (b) What amount was shown on the April 30 Trial Balance? (c) What is the balance due June 1?

L. B. MARSH — City

19					19			
Apr.	7		27	35	May	5		50 —
	16		32	50				
			59	*85*				
May	10		32	75				
	16	*61.34*	19	75				
			112	*35*				

Exercise 29, Purchases on Credit

A. L. Walker began the retail furniture business with a cash investment of $2,000.00. During the month of May he completed the following transactions with creditors:

2. Purchased from Boyd & Company, Atlanta, furniture, $672.55; terms, 10 days.

5. Purchased from Norman Drapery Company, New Albany, draperies, $765.48; terms, 10 days.

12. Paid Boyd & Company $500.00 to apply on account.

13. Bought from Mason Carpet Company, Dodgeville, carpets, $936.47; terms, on account.

14. Returned draperies to Norman Drapery Company, $42.50.

16. Paid Norman Drapery Company $722.98 balance due.

20. Purchased from Boyd & Company, furniture, $516.55; terms, 30 days.

25. Paid Boyd & Company $172.55 balance due on purchase of May 2.
26. Returned rugs to Mason Carpet Company, $126.50.
31. Paid the Sage Rug Co. $186.55 for a cash purchase of merchandise delivered today.

Instructions. (a) Record these transactions in the journal. (b) Post to accounts with Cash (7), each creditor (4), A. L. Walker, Prop. (4), and Purchases (8). (c) Prove the posting by a Trial Balance.

Note Payable. The proprietor's written promise to pay a definite amount at a certain time is referred to as a *note payable.* The proprietor of a business frequently gives to a creditor a note payable in order to secure additional time for paying the amount due the creditor for purchases on account.

A note payable is a liability. The amount stated in the note, usually referred to as the face value, is the amount of the liability. The discussion of notes payable here relates to notes issued to creditors. Notes may be issued for other purposes as will be explained in a subsequent chapter.

Recording a Note Payable. When a note payable is issued to a creditor, the transaction results in an increase in the liability notes payable and a decrease in the liability accounts payable. The account with the creditor is debited for the *face value* of the note and an account with the title Notes Payable is credited for the same amount.

Issuing a note to a creditor cancels the amount of the indebtedness to him and creates a new liability to pay the person who may happen to own the note when it falls due. When cash is paid at the maturity of the note, the transaction results in a decrease in the asset cash and a decrease in the liability notes payable. When cash is given in payment for a note payable, the cancelled note is returned by the one to whom the cash was paid to the one who paid it.

The method of recording transactions in which a note payable is issued and cash is paid is further explained by illustrations.

May 20. David B. Russell, a retail merchant, gave Wiley & Bray, a creditor, his 30-day note for $497.65 in full of account.

This transaction results in a decrease in the liability accounts payable and an increase in the liability notes payable. The illustration at the right shows the journal entry to record this transaction. The account with Wiley & Bray is debited to record the decrease in the liability accounts payable and the Notes Payable account is credited to record the increase in the liability notes payable.

	20			
10	Wiley & Bray		497 65	
12	Notes Payable			497 65
	Gave 30 day note for balance due.			

The accounts in the illustration at the right appear on the ledger of David B. Russell after the journal entry on page 65 is posted. The account with Wiley & Bray is in balance and the indebtedness is recorded as a credit to the Notes Payable account. "Note" is written in the explanation column of the account with the creditor to show that the account was closed by note. The time of the note is entered in the explanation column of the Notes Payable account to indicate the maturity of the note.

NOTES PAYABLE

					19				
					May	20	30 da.	6	497 65

WILEY & BRAY

19							19				
May	1		5	500	—	Mar.	16	60 da.	2	1297	65
	14		6	300	—						
	20	Note	6	497	65						

DOW CITY

June 19. David B. Russell gave the City National Bank $497.65 for note issued to Wiley & Bray May 20.

This transaction results in a decrease in the asset cash and a decrease in the liability notes payable. The illustration at the left shows the journal entry required to record this transaction. The Notes Payable account is debited to record the decrease in the liability and the Cash account credited to record the decrease in the asset.

	19			
12	Notes Payable		497 65	
1	Cash			497 65
	Paid Wiley & Bray note due today.			

When the above journal entry is posted, the Notes Payable account on the ledger of David B. Russell will appear as in the illustration at the left. The ruling indicates the account is in balance. The Notes Payable account is usually ruled in the same manner as an account payable, that is, with single lines at a point where the two sides are equal.

NOTES PAYABLE

19					19					
June	19	8	497	65	May	20	30 da.	6	497	65

Combined Cash and Credit Purchase. When merchandise is purchased from a creditor and only a part of the purchase price paid at the time of the purchase, the transaction is recorded in two entries, (a) one to record the purchase, and (b) one to record the cash paid. The first entry requires a debit to the Purchases account and a credit to the account with the creditor for the amount of the purchase. The second entry requires a debit to the account with the creditor and a credit to the Cash account for the amount of cash paid.

May 5. Purchased from Allen & Rogers, City, merchandise, $452.50; terms, cash $200.00, balance 10 days.

The illustration at the right shows the two entries required to record this transaction. The first entry records the full amount of the purchase and the second entry the cash payment. When the entries are posted, the full amount of the purchase will appear on the credit side of the account with the creditor and the amount of the cash on the debit side; according to the terms, the balance will be due in ten days.

5					
Purchases		452	50		
Allen & Rogers				452	50
Merchandise purchased; terms, cash $200; balance 10 days.					
5					
Allen & Rogers		200	—		
Cash				200	—
Paid cash in part payment of purchase of today.					

Ruling the Account with a Creditor. When the sum of the amounts on the debit side equals the sum of the amounts on the credit side, the account is *in balance* and should be ruled. The methods of ruling are the same as those for the customer's account illustrated on pages 55 and 56.

SUMMARY OF ACCOUNTS

Account with a Creditor. The title of the account with each creditor is his name and address. The purpose of the account with each creditor is to record the transactions with him.

To accomplish this purpose the account with a creditor is *credited* for the increases in his account, which is a liability, and *debited* for decreases in his account. The *credit* balance is the amount owed the creditor. The sum of all the credit balances to be paid to creditors is the liability accounts payable.

The Notes Payable Account is a record of the changes in the liability notes payable.

The Notes Payable account is *credited* for increases (face of each note) and *debited* for decreases.

The *credit* balance is the liability notes payable and agrees with the amount of the unpaid notes payable.

Debits and Credits. When purchases and sales are made for cash and on credit, the transactions will result in changes in assets, liabilities, and proprietorship. Each transaction is recorded so as to show its effect on assets, liabilities, and proprietorship.

This record is made in the following manner:

(1) Increases in assets, decreases in liabilities, and increases in expense are recorded as debits in the appropriate accounts.

(2) Decreases in assets, increases in liabilities, and increases in income are recorded as credits in the appropriate accounts.

Exercise 30, Transactions with Creditors

(ORAL OR WRITTEN)

1. May 1. M. B. Dunn, a retail shoe merchant, owned the following assets which he used in the operations of his business: Cash, $8,000.00; Merchandise Inventory, $1,200.00; Equipment, $500.00. He owes the Ross Shoe Company $300.00. State his proprietorship (a) in equation form, (b) in the form of a journal entry, (c) in accounts resulting from posting the journal entry.

2. May 5. M. B. Dunn purchased from Ross Shoe Co. on 30 days' time merchandise for $700.00. State the journal entry necessary to record this transaction.

3. The entry at the right was recorded in the journal of C. H. House, a radio dealer. (a) Why is the Purchases account debited? (b) Why is the Cross Radio Co. credited? (c) Why is the time mentioned in the explanation? (d) When will this indebtedness be due? (e) How will this entry be posted?

May 1, 19			
Purchases	850 —		
Cross Radio Co.			850 —
Bought radios on 30 days time.			

4. The entry at the left was recorded in the journal of C. H. House, a radio dealer. (a) Why is the Cross Radio Co. account debited? (b) Why is the Purchases account credited? (c) How will this entry be posted?

10		
Cross Radio Co.	26 50	
Purchases		26 50
One radio returned by agreement.		

5. The entry at the right was recorded in the journal of C. H. House, a radio dealer. (a) Why is the Cross Radio Co. debited? (b) Why is the Cash account credited? (c) How will this journal entry be posted?

June 1, 19		
Cross Radio Co.	823 50	
Cash		823 50
Paid in full of account.		

6. Under what conditions will the account with a creditor show (a) a credit balance, and (b) a debit balance?

7. If a purchase of merchandise for $75.15 is recorded in the journal as a debit to Purchases, $75.51, and a credit to the account with the creditor as $75.15, what effect will this error have on the Trial Balance if the entry is posted as stated?

Exercise 31, Transactions with Creditors

March 1. Walter O'Connor invested $2,500 in cash in the farm implement and garden seed business. During the month of March he completed the following transactions with creditors:

1. Purchased from the Dixon Farm Implement Co., Dixon, farm implements, $765.50; terms, 30 days.
5. Purchased from Mayo Seed Co., Detroit, Mdse., $285.20; terms, 10 days.
6. Returned to the Dixon Farm Implement Co., merchandise, $85.30.
10. Purchased from Adair Bros., Chicago, Mdse., $429.60; terms, 10 days.
15. Gave Mayo Seed Co. a 15-day note for $285.20.
18. Purchased from Dixon Farm Implement Co., farm implements, $472.69; terms, 30 days.
20. Gave Adair Bros. $229.60 cash and a 30-day non-interest-bearing note for $200.00 in full for purchase of March 10.
25. Bought from Mayo Seed Co., garden seed, $216.20; terms, 10 days.
30. Gave Mayo Seed Co. $285.20 in payment of note due today.

Instructions. (1) Journalize, post, and take a Trial Balance; allow seven lines for each account.

(2) Show proprietorship through an equation in statement form similar to the illustration on page 63; merchandise inventory, $2,083.89.

Exercise 32, Recording Transactions, Posting and Trial Balance

M. E. Stacey, a retail clothing merchant, completed the following transactions during the month of October:

1. M. E. Stacey invested cash, $2,000.00, in the clothing business.
1. Paid October rent, $100.00.
2. Purchased a stock of clothing from the Globe Clothing Co., City, $1,350.00. Paid $800.00 cash; balance, 30 days.
8. Purchased from A. R. King, Clinton, merchandise, $317.65. Paid $150.00 cash; balance, 10 days.
10. Received $375.00 for cash sales of merchandise.
18. Paid A. R. King $100.00 on account.
24. Sold E. B. Moore, 305 Elm St., City, on account, one overcoat, $75.00; one suit, $50.00.
28. Sold J. W. Macon, 222 Main St., City, on account, two suits, $127.50.
29. Received $50.00 from E. B. Moore on account.
31. Paid salaries for the month, $125.00.

Instructions. (1) Journalize, post (allow eight lines for each account), prove cash (balance, $1,150.00) and take a Trial Balance.

(2) Show present proprietorship through an equation in statement form similar to the illustration on page 63; merchandise inventory, $1,543.75.

(3) Show net profit and proof of proprietorship through equations in statement form similar to Nos. 2 and 3 on page 42.

CHAPTER VII

INVESTMENTS AND WITHDRAWALS

The proprietorship is increased by investments and decreased by withdrawals. The method of recording increases because of investments was discussed in preceding chapters. The discussion in this chapter relates to investments, withdrawals from investment, and withdrawals for personal use.

Investments. The assets put into the business at the beginning and at any time thereafter are referred to as *investment.* The purpose of investments is to provide the assets needed in operating the business. Each investment results in an increase in the assets and an increase in proprietorship.

Withdrawals. Assets taken out of the business by the owner are referred to as *withdrawals.* The usual purpose of withdrawals is compensation to the owner for his services rendered to the business. The owner may, however, withdraw assets for other reasons if desired. Each withdrawal results in a decrease in proprietorship and a decrease in assets no matter for what purpose the withdrawal is made.

Accounts with the Proprietor. Investment and income are increases in proprietorship and withdrawals and expenses, decreases in proprietorship. Since the difference between the total income and total expenses is the net profit, it is necessary to record the increases and decreases in proprietorship so that those resulting from investments and withdrawals may be shown separately from those resulting from income and expenses.

The usual plan is to record expenses and income in special accounts such as Expense and Sales and to record investments and withdrawals in accounts with the proprietor. The title of the account in which investments are recorded is the name of the proprietor with the word "Capital", "Proprietorship", or "Investment" written after it. The title of the account in which withdrawals in anticipation of profit are recorded is the name of the proprietor with the word "Drawing" or "Personal" written after it. The withdrawals recorded in the Drawing account are those for compensation or personal use usually referred to as *withdrawals in anticipation of profit.* Should the owner withdraw a part of his invested capital, this would be recorded in his Capital account.

John Smith owns a retail grocery business. The title of the account in which his investments are recorded is "John Smith, Capital". The title of the account in which his withdrawals are recorded is "John Smith, Drawing".

Merchandise Withdrawn for Personal Use. When the proprietor takes merchandise out of stock for personal use, it is customary to record this at the cost price. Thus, merchandise withdrawn for personal use results in a decrease in the asset merchandise and a decrease in proprietorship.

The decrease in proprietorship is recorded as a debit to the Drawing account with the proprietor and the decrease in assets as a credit to the Purchases or Sales account; the effect on proprietorship is the same with either account credited. When the amounts of the withdrawals are large, the Purchases account should be credited to avoid over-stating the sales and the cost of goods sold.

Recording Transactions with the Proprietor. The owner receives credit in his Capital account for the value of the assets invested at the beginning of the business and for subsequent investments. Withdrawals from investment are debited to his Capital account and withdrawals for personal use to his Drawing account. Unless the proprietor issues specific instructions relative to the account to debit for withdrawals, the bookkeeper will assume that all withdrawals are to be recorded in the Drawing account.

January 1. A. L. Durr invested $2,500.00 in the retail dry goods business.

This investment stated in equation form is:

CASH $2500.00 = A. L. DURR, CAPITAL $2500.00

The illustration at the right shows the journal entry necessary to record this investment. The equation "Assets = Proprietorship" is the basis for debits and credits. Assets are on the left of this equation, hence the debit to the Cash account. Proprietorship is on the right of this equation, hence the credit to the proprietorship account.

January 1, 19

72	Cash	2500 —		
72	A. L. Durr, Capital			2500 —
	Invested $2500.00 cash in the retail dry goods business.			

March 15. Invested cash $1500.00.

This additional investment indicates that the $2,500.00 invested January 1 was not sufficient capital for carrying on the business. This additional investment is an increase in the assets and an increase in proprietorship.

The illustration at the left shows the journal entry necessary to record this additional investment. The Cash account is debited to record the increase in the asset cash and the Capital account is credited to record the increase in proprietorship through the investment.

March 15, 19

72	Cash	1500 —	
72	A. L. Durr, Capital		1500 —
	Invested $1500.00 cash in the business.		

April 1. Withdrew $100.00 cash for personal use.

The fact that this is for personal use indicates that it is to be recorded in the Drawing account. This transaction results in a decrease in the assets and a decrease in proprietorship.

The illustration at the right shows the journal entry required to record this decrease in assets and decrease in proprietorship. A. L. Durr's Drawing account is debited because the purpose of this account is to contain a record of all of his personal drawings. The Cash account is credited to record the decrease in the asset cash.

April 1, 19

72	A. L. Durr, Drawing	100 —	
72	Cash		100 —
	Withdrew cash for personal use.		

May 15. Withdrew $500.00 of invested capital.

The information indicates that A. L. Durr wishes the withdrawal recorded in his Capital account. The illustration at the left shows the journal entry required to record this withdrawal. The Capital account is debited to record the decrease in proprietorship and the Cash account credited to record the decrease in the asset cash.

May 15, 19

72	A. L. Durr, Capital	500 —	
72	Cash		500 —
	Withdrew a part of the invested capital.		

June 30. Withdrew $200.00 cash for personal use.

The illustration at the right shows the journal entry required to record this withdrawal. This withdrawal is the same nature as the one of April 1; hence the accounts debited and credited are the same as in the entry of April 1.

June 30, 19

72	A. L. Durr, Drawing	200 —	
72	Cash		200 —
	Withdrew cash for personal use.		

Posting Withdrawals. The accounts in the illustration at the left show the results of posting the journal entries on this and the preceding page. The page in the folio column of each account is the page in this text on which the journal entry was recorded. The Capital account shows the investments, withdrawals from investments, and the balance of invested capital. The Drawing account shows the withdrawals which were made in anticipation of profit.

CASH

19					19				
Jan.	1		71	2500 —	Apr.	1		72	100 —
Mar.	15	$200.00	71	1500 —	May	15		72	500 —
		4000			June	30		72	200 —
							800		

A. L. DURR, CAPITAL

19					19				
May	15		72	500 —	Jan.	1		71	2500 —
					Mar.	15	$500.00	71	1500 —
							4000		

A. L. DURR, DRAWING

19									
Apr.	1		72	100 —					
June	30		72	200 —					
		300							

A Trial Balance prepared from the balances of the accounts in the ledger at the bottom of page 72 is shown in the illustration at the right.

TRIAL BALANCE, June 30, 19

72	Cash	3200 —	
72	A. L. Durr, Capital		3500 —
72	A. L. Durr, Drawing	300 —	
		3500 —	3500 —

An equation prepared from the account balances in the Trial Balance is:

CASH $3200.00 = A. L. D. CAPITAL $3500.00 − A. L. D., DRAWING $300.00

Since the balance of the Drawing account is a decrease in proprietorship, the equation may be:

CASH $3200.00 = A. L. DURR, PROPRIETORSHIP, $3200.00

SUMMARY

The Capital account is a record of increases and decreases in investment. It is *credited* with increases and *debited* with decreases. The *credit* balance shows the owner's net investment which is his proprietorship at the beginning of each fiscal period.

The Drawing account is a record of the withdrawals for compensation or personal use. The Drawing account is *debited* for all withdrawals. The *debit* balance of the Drawing account shows the amount withdrawn by the proprietor. It is a decrease in proprietorship and may be regarded by the owner as one of the expenses of the business, but for income tax purpose the debit balance of the Drawing account can not be regarded as an expense.

The method of transferring the net profit to the Capital account, and closing the Drawing account into the Capital account is explained in Chapter IX.

Debits and Credits. Each transaction is recorded so as to show its effect on assets, liabilities, proprietorship, income, and expense. This record is made in the following manner:

(1) Increases in assets, decreases in liabilities, decreases in proprietorship, and increases in expense are recorded as debits in the appropriate accounts.

(2) Decreases in assets, increases in liabilities, increases in proprietorship, and increases in income are recorded as credits in the appropriate accounts.

Exercise 33, Accounts with the Proprietor

(ORAL OR WRITTEN)

1. You invest $500.00 in cash in a retail candy business. (a) What accounts are debited and credited? (b) Why?

2. You withdraw $50.00 for personal use. What accounts are debited and credited?

3. You invest an additional $500.00 in the retail candy business. (a) What accounts are debited and credited? (b) Why?

4. You take for personal use a box of candy which costs $2.50. What accounts are debited and credited?

5. June 5. J. L. Burr, a dealer in electric supplies, took for home use an electric fan which cost $18.75. What account may be credited?

6. B. H. Kroger, a grocer, gave the telephone company a check for $10.00, $7.50 of which pays for the telephone in the store and $2.50 for the telephone in his home. What accounts are debited for each amount?

Exercise 34, Capital and Drawing Accounts

R. B. Morgan began business as a retail dealer in electrical supplies July 1. During the first six months of operations he made the following investments and withdrawals.

July 1. Invested cash, $4,500.00.
15. Withdrew cash, $100.00.
27. Took from stock an electric percolator, cost price $6.50.
Aug. 31. Withdrew cash, $300.00.
Sept. 15. Took electrical supplies for home use, $275.50.
Oct. 20. Invested cash, $1,000.00.
Dec. 15. Withdrew cash $350.00.

Instructions. Journalize, post (allow eight lines for each account) and take a Trial Balance. Debit all withdrawals to the Drawing account; credit the Purchases account for merchandise withdrawn.

Exercise 35, Capital and Drawing Accounts

The accounts below appear on the ledger of C. H. Matson, who operates the Royal Cafe.

C. H. MATSON, CAPITAL

192						192					
June	30	Cash	1	600	—	May	1	Cash	1	1250	—
Aug.	1	Cash	2	350	—	June	1	Cash	1	500	—
						Aug.	10	Cash	2	1000	—

C. H. MATSON, DRAWING

192					
May	10	Merchandise	1	16	50
	31	Cash	1	75	—
June	9	Merchandise	1	38	75
July	15	Cash	2	100	—
	31	Cash	2	150	—

Instructions. (1) Record in the journal in the proper order the information shown in the accounts. Credit the Purchases account for merchandise withdrawn.

(2) (a) Post to accounts with Cash (8), Purchases (5), Capital (6) and Drawing (7). (b) Prove cash, balance $1,475.00. (c) Prove the posting by a Trial Balance.

REVIEW

The transactions completed by E. B. Tate, outlined in the following narrative and recorded in the illustrations on pages 79–82, provide a review of the preceding chapters.

NARRATIVE OF MAY TRANSACTIONS

1. E. B. Tate invested $3,500.00 in cash in the retail furniture business.
2. Purchased from Dobbs Bros., merchandise per invoice rendered as follows:

DOBBS BROS.

DAYTON, OHIO

Sold to E. B. Tate
313 Main St.
Cincinnati, Ohio

May 2, 192

Terms Cash $1500 on delivery
Bal. 20 days

Shipped Via Truck

1✓	Living Room Suite		280.00✓
3✓	Bedroom Suites	95.00✓	285.00✓
1✓	Bedroom Suite		197.25✓
3✓	Dining Room Suites	57.50✓	172.50✓
1✓	Dining Room Suite		153.35✓
3✓	Dining Room Suites	87.00✓	261.00✓
2✓	Kitchen Cabinets	27.50✓	55.00✓
15✓	Kitchen Tables	1.50✓	22.50✓
4✓	Refrigerators	16.25✓	65.00✓
1✓	Refrigerator		69.00✓
7✓	Rugs, 6 x 9	14.76✓	103.32✓
2✓	Rugs, 9 x 12	18.25✓	36.50✓
2✓	doz. Chairs	11.75✓	23.50✓
1✓	doz. Rockers		55.00✓
1✓	doz. Curtains		18.50✓
8✓	doz. Curtains	28.00✓	224.00✓
3✓	doz. Curtains	48.00✓	144.00✓
			$2165.42✓

This purchase invoice contains full information regarding the purchase made from Dobbs Bros. by E. B. Tate. The check marks indicate that the quantities billed were received and that the prices and extensions are correct.

2. Paid May rent and received the receipt shown below.

Rent Receipt.

Cincinnati, May 2, 19

Received of E. B. Tate

Eighty-three 33/100 Dollars for

Rent of Store No. 313

Main Street for one Month

Ending May 31, 19

$83.33 D. K. Brown

This receipt is evidence to Mr. Tate that he has paid the money and evidence to the bookkeeper of the reason for the payment.

3. Gave Dobbs Bros., check No. 1, $1,500.00, to apply on purchase of the 2d.

No. 1 $1500.00
May 3 19 —
To Dobbs Bros.
For 2/c of Inv. May 2

	DOLLARS	CENTS
Bal. brot for'd		
Amt deposited	3500	—
Total	3500	—
Amt this Check	1500	—
Bal. carr'd for'd	2000	—

UNION BANK AND TRUST CO. 13-13

CINCINNATI, OHIO, May 3, 19 No. 1

PAY TO THE ORDER OF Dobbs Bros. $1500.00

One Thousand Five Hundred and —/100 DOLLARS

FOR 2/c of Inv of May 2 E B Tate

This check was issued to Dobbs Bros. because E. B. Tate has the money on deposit and the bank will pay it to Dobbs Bros. E. B. Tate retains the stub as a record of the check. The method of keeping a record of the transaction with the bank because of deposits and checks is explained in a subsequent chapter.

5. Sold A. T. Miller, 1214 Walnut St., City, terms on account*, merchandise, sales ticket No. 1.

SALES TICKET

FURNITURE CARPETS

E. B. TATE

CINCINNATI, O.

No. 1 DATE May 5, 19

SOLD TO A. T. Miller
1214 Walnut St, City

Quantity	ITEMS	Price	Amount
1	Bedroom Suite		160.00
1	6x9 ax. Rug		24.50
1	Rocker		9.25
2	prs. Curtains	2.50	5.00
			198.75

A. R. Mann
Clerk

This sales ticket is the result of the sale made to A. T. Miller. It is customary for the retail merchant to prepare a sales ticket for each sale. The sales tickets for charge sales are usually made in duplicate, one copy being wrapped with the goods and the other retained as a part of the bookkeeping records. These sales tickets are numbered consecutively and each one must be accounted for. If a description of the items is desired at any time, the sales ticket may be easily located by number. The explanation in the journal is "Sales ticket No. 1". Cash sales may be recorded by means of a cash register or on sales tickets in the same manner as charge sales.

9. E. B. Tate took for personal use, one velvet rug which cost $50.00.

*Terms "on account" mean no special terms, that is, collection on the first of the month following date of the sale.

11. Sold C. A. Adams, 932 Day St., City, 30 days, merchandise per sales ticket No. 2, $118.50.

The sales ticket was the same form as sales ticket No. 1.

12. Purchased from the Grant Manufacturing Company, 420 Spring St., City, 30 days, merchandise, invoice dated May 11, $1,162.90.

The purchases invoice was similar to the one received from Dobbs Bros.

15. Sold James B. Fall, 617 Davis Ave., City, on account, merchandise, sales ticket No. 3, $247.50.

16. E. B. Tate took $100.00 in cash for personal use

18. Cash sales of furniture and draperies, $562.75.

20. Gave Dobbs Bros. $365.42 in cash to apply on account.

22. Sold A. T. Miller, City, on account, merchandise, sale No. 4, $118.50.

23. Received $100.00 in cash from James B. Fall to apply on account. Issued a receipt as follows:

Date May 23, 19	Cincinnati, May 23, 19
To James B. Fall	Received of James B. Fall
	One Hundred ——— 00/100 Dollars
For On account	On account
No. 1	No. 1
$100.00	$100.00 E. B. Tate

This receipt was issued by E. B. Tate as an acknowledgment of the cash received. He has retained on the stub the same information as is on the receipt. The receipt will be detached from the stub and given to James B. Fall. The stub is bound in a book where it will be retained permanently. The information for the bookkeeping records will be from the receipt stub, hence, the explanation in the journal "Received cash per receipt No. 1".

26. Sold C. A. Adams, City, 60 days, merchandise, sale No. 5, $159.00.

27. Received check for $100.00 from A. T. Miller to apply on account.

Cincinnati, May 27, 19 No. 68

The Central Trust Company 13-39

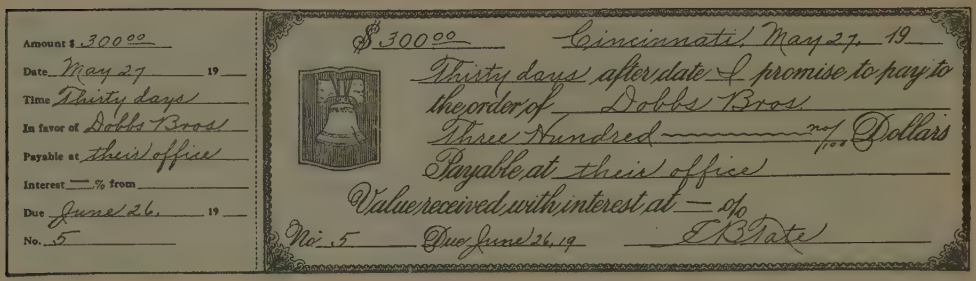
Pay to the order of E. B. Tate $100.00

One Hundred and ——— 00/100 Dollars

A. T. Miller

E. B. Tate regards this check as cash because A. T. Miller has the money on deposit in the bank and the bank will pay it to E. B. Tate or his order.

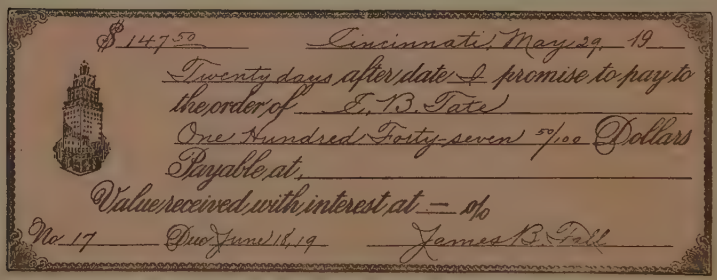
27. Gave Dobbs Bros. the note shown below in payment for balance due on purchase of May 2.



Mr. Tate still owes Dobbs Bros. $300.00, but it is now in the form of a written promise to pay this amount within thirty days. The stub is bound in a book where it is retained permanently. It shows the same information as the note so that when the note is detached and given to Dobbs Bros. the bookkeeping record may be made from the stub.

29. Purchased from Dobbs Bros., City, terms, 60 days, merchandise, invoice dated May 27, $1,407.95.

29. Received the note illustrated below from James B. Fall in full of balance due on sale of May 15.



This note was prepared by James B. Fall and removed from a stub similar to the one shown under the transaction of May 27. This note is one of E. B. Tate's assets.

31. Paid cash, $125.00, clerk's salary for the month.

31. A count of the cash showed $2,089.00 on hand.

The transactions completed by E. B. Tate during the month of May are shown recorded in the journal, Illustration 8, pages 79 and 80, and posted to the ledger, Illustration 9, pages 81 and 82.

May 1, 19

81	Cash		3500 —	
82	E. B. Tate, Capital			3500 —
	Investment in furniture business			
	2			
82	Purchases		2165 42	
81	Dobbs Bros. Dayton, Ohio			2165 42
	Purchase invoice of today. $1500 cash on delivery, balance 20 days.			
	2			
82	Expense		8333	
81	Cash			8333
	Paid rent for May			
	3			
81	Dobbs Bros.		1500 —	
81	Cash			1500 —
	Paid cash to apply on purchase, May 2			
	5			
81	A. T. Miller, 1214 Walnut St. City		19875	
82	Sales			19875
	Sales Ticket No. 1.			
	9			
82	E. B. Tate, Drawing		50 —	
82	Purchases			50 —
	Sent one velvet rug for home use			
	11			
81	C. A. Adams, 932 Day St. City		11850	
82	Sales			11850
	Sales Ticket No. 2.			
	12			
82	Purchases		1162 90	
82	Grant Mfg. Co. 420 Spring St. City			1162 90
	Purchase invoice May 11, 30 days.			
	15			
81	James B. Fall, 617 Davis Ave. City		24750	
82	Sales			24750
	Sales Ticket No. 3.			
	16			
82	E. B. Tate, Drawing		100 —	
81	Cash			100 —
	Withdrew cash for personal use.			

Illustration 8, Journal, Page 79

May 18, 19

81	Cash		562 75	
82	Sales			562 75
	Cash sales.			
	20			
81	Dobbs Bros.		365 42	
81	Cash			365 42
	Paid cash to apply on account.			
	22			
81	A.T. Miller		118 50	
82	Sales			118 50
	Sales Ticket No. 4.			
	23			
81	Cash		100 —	
81	James B. Fall			100 —
	Received cash per Receipt No. 1.			
	26			
81	C.A. Adams		159 —	
82	Sales			159 —
	Sales Ticket No. 5			
	27			
81	Cash		100 —	
81	A.T. Miller			100 —
	Received cash to apply on account			
	27			
81	Dobbs Bros.		300 —	
81	Notes Payable			300 —
	Gave 30-day note for balance due on purchase of May 2.			
	29			
82	Purchases		1407 95	
81	Dobbs Bros.			1407 95
	Purchase invoice May 27. 60 days.			
	29			
81	Notes Receivable		147 50	
81	James B. Fall			147 50
	Received 20 day note for sale of May 15.			
	31			
82	Expense		125 —	
81	Cash			125 —
	Paid clerk's salary for the month.			

Illustration 8, Journal, Page 80

Cash

19						19					
May	1		79	3500 —		May	2		79	83 33	
	18		80	562 75			3		79	1500 —	
	23		80	100 —			16		79	100 —	
	27	2089.00	80	100 —			20		80	36 54	2
				4262 75			31		80	2175 —	
										3173 75	

Notes Receivable

19										
May	29	20 days	80	147 50						

A. T. Miller

1214 Walnut St. City

19						19				
May	5		79	198 75		May	27		80	100 —
	22	217.25	80	1185 50						
				3172 25						

C. A. Adams

932 Day St. City

19										
May	11	30 days	79	118 50						
	26	60 days	80	159 —						
				277 50						

James B. Fall

617 Davis Ave. City

19						19				
May	15		79	247 50		May	23		80	100 —
							29	20 day note	80	147 50

Merchandise Inventory

Notes Payable

19										
						May	27	30 days	80	300 —

Dobbs Bros.

Dayton, Ohio

19						19					
May	3		79	1500 —		May	2	Cash $1500.00 Balance, 20 days	79	216	54 2
	20		80	365 42			29	May 27, 60 days	80	140	79 5
	27	30 day note	80	300 —							

Illustration 9, Ledger, Page 81

Grant Mfg. Co 420 Spring St. City

19					
May 12	May 11, 30 days	79	1	16	29 0

E. B. Tate, Capital

19					
May 1		79	35	00	--

E. B. Tate, Drawing

19					
May 9		79		50	-
16		79	1	50	-

Sales

19					
May 5		79	1	98	75.
11		79	1	18	50
15		79	2	47	50
18		80	5	67	75
22		80	1	18	50
26		80	1,4	59	-

Purchases

19								
May 2			79	2	16	54	2	
12			79	1	16	29	0	
29		4686.27	80	1,4	07	95	27	

19						
May 9		77		50	-	

Expense

19						
May 2	Rent	79		83	33	
31	Clerk's salary	80	1,2	50	--	

Illustration 9, Ledger, Page 82.

Trial Balance. Illustration 10 below shows the account balances on the ledger, Illustration 9, pages 81 and 82. The numbers at the left of the account titles are the pages in the ledger.

E. B. Tate
Trial Balance, May 31, 19

81	Cash	2089 —	
81	Notes Receivable	147 50	
81	A. T. Miller	217 25	
81	C. A. Adams	277 50	
81	Merchandise Inventory		
81	Notes Payable		300 —
81	Dobbs Bros.		1407 95
82	Grant Mfg. Co.		1162 90
82	E. B. Tate, Capital		3500 —
82	E. B. Tate, Drawing	150 —	
82	Sales		1405 —
82	Purchases	468627	
82	Expense	20833	
		777585	777585

Illustration 10, Trial Balance

Statement of Account. It is customary with merchants to render a statement to each charge customer on the first of the month. One of the statements below was mailed to A. T. Miller by E. B. Tate and the other one was mailed to E. B. Tate by the Grant Manufacturing Co.

STATEMENT

E. B. TATE
FURNITURE
AND CARPETS

CINCINNATI, O., June 11, 19

To Mr. A. T. Miller
1211 Walnut St.
City

	BALANCE			
May 5	NOTE, PER BILL RENDERED	198 75		
22		118 50	317 25	
	Cr.			
May 27	Cash		100 00	
			217 25	

STATEMENT

CINCINNATI, OHIO June 1, 19

GRANT MANUFACTURING COMPANY
420 SPRING STREET
Manufacturers of High Grade Furniture

To Mr. E. B. Tate
313 Main St., City

DATE	CHARGES	CREDITS	BALANCE
MAY 11-	116290		116290

The statement at the left agrees with A. T. Miller's account in the ledger on page 81, and the statement at the right, with Grant Manufacturing Company's account on page 82.

Exercise 36, Business Forms

(ORAL OR WRITTEN)

1. What does a purchase invoice represent?
2. What entry is made in the journal for a purchase invoice on which the terms are "30 days"?
3. What does a sales ticket represent?
4. What entry is required to record a transaction represented by a sales ticket with no stated terms, that is, "on account"?
5. What is the purpose of (a) a receipt? (b) a receipt stub?
6. What account is credited by the one who receives a receipt?
7. What account is debited by the one who issues the receipt?
8. What is the purpose of (a) a check? (b) a check stub?
9. What account is debited by the one who receives a check?
10. What account is credited by the one who issues the check?
11. What is the purpose of a statement of account?
12. Will the account on the ledger of the one who receives a statement show a debit or credit balance?
13. Will the account on the ledger of the one who sends a statement show a debit or a credit balance?
14. "Invested $1,000.00 in the retail toy business." How will this transaction be recorded in the journal using the current date and your name?
15. The assets, liabilities and proprietorship of G. Daws on July 1 are stated in the equation below:

Cash	$500.00	C. L. Joy	$100.00	G. Daws, Capital	$650.00
James Allen	100.00	Notes Pay.	200.00	G. Daws, Drawing	− 50.00
Equipment	300.00				
Assets	$900.00	− Liab.	$300.00	= G. Daws, Pres. Cap.	$600.00

How can these facts be expressed in account form?

Exercise 37, Recording Transactions, Posting and Trial Balance

July 1. E. B. Mann began a retail paint and varnish business with a cash capital of $1,500.00. During July he completed the following transactions; unless otherwise stated, the terms on sales are "on account".

1. Paid $90.00 for July rent.
2. Bought from A. L. Durr, City, merchandise for $516.50. Paid $300.00, balance to be paid within 10 days.
5. Sold J. A. Taylor, 22 Poplar St., one 5-gallon pail cream paint at $2.40 a gallon; ten 1-gallon cans French gray at $2.35 a gallon.
6. Received $327.50 for cash sales of paint.

8. Bought from Johnson Paint Company, City, merchandise for $475.50, terms 10 days.
9. Sold O. B. Joy, 215 Center St., 10 gallons green paint at $2.50; 5 gallons pearl gray at $2.45; 5 gallons red paint at $3.25; 5 gallons varnish at $4.50. Received cash $25.00, balance 30 days.
10. Sold J. A. Taylor, 4 gallons varnish at $4.50; 5 gallons floor paint at $2.40.
12. Gave A. L. Durr a 20-day note for $216.50 in full of account.
12. Received $204.50 for cash sales.
15. Paid clerk $35.00, salary for first half of July.

Instructions. (a) Record each of these transactions in the journal. (b) Open accounts with Cash (10), Notes Receivable (4), J. A. Taylor (5), O. B. Joy (4), J. C. Martin (4), Notes Payable (5), A. L. Durr (5), Johnson Paint Company (6), E. B. Mann, Capital (4), E. B. Mann, Drawing (5), Sales (12), Purchases (8) and Expense (5). (c) Post the journal entries. (d) Prove cash, balance $1,632.00. (e) Take a Trial Balance.

Exercise 38, Recording Transactions, Posting and Trial Balance

July 16-31, E. B. Mann completed the following transactions:

16. E. B. Mann took 5 gallons of paint from stock for use at his home, cost, $1.95 per gallon. (Credit Purchases account).
18. Purchased from A. L. Durr, merchandise for $327.50.
18. Gave Johnson Paint Company note for $300.00 due in 30 days and cash $175.50 in full for purchase of the 8th.
20. Received $186.50 for cash sales of merchandise to date.
23. Received a note due in 10 days from J. A. Taylor for $65.50 in full for sales of the 5th and 10th.
24. Sold J. C. Martin, 527 Spring St., City, 10 gallons porch paint at $2.15; 10 gallons calcimine at $1.40; 2 gallons auto enamel at $3.75.
26. J. C. Martin returned 2 gallons of the porch paint sold him on the 24th.
28. Purchased from the Johnson Paint Company, merchandise for $265.50, terms 30 days.
30. E. B. Mann took cash, $100.00, for personal use.
31. Received $275.25 for cash sales to date.
31. Paid clerk $35.00, salary for last half of July.

Instructions. (a) Record each of these transactions in the journal. (b) Post to the same accounts as in the preceding exercise. (c) Prove cash, balance $1,783.25. (d) Take a Trial Balance. (e) Show the present proprietorship, net profit and proof of proprietorship in equation form; merchandise inventory, $796.80.

CHAPTER VIII

BALANCE SHEET AND PROFIT AND LOSS STATEMENT

The method of ascertaining the present proprietorship and net profit after recording a group of transactions has been previously explained and illustrated. The discussion in this chapter relates to the written reports prepared for the owner at the close of a *fiscal period.*

Fiscal Period. The owner of a business will want to know from time to time the results of operating the business because he has invested cash or other assets for the purpose of making a profit, that is, increasing the amount of the proprietorship. Since the federal government requires a report of annual income for income tax purposes, the owner must ascertain the net profit or net loss at least once each year. If the nature of the business is such that the net profit should be ascertained more often, it may be secured monthly, quarterly, or semi-annually. The term *fiscal period* is used in bookkeeping to describe the period for which the profit is ascertained.

A *monthly fiscal period* is a period of operations for one month; it usually begins with the first transaction on the first day of the month and ends with the last transaction on the last day of the month. A *yearly fiscal period* includes the operations for twelve successive months; it usually begins with the first day of the first month and ends with the last day of the twelfth month. A *calendar year* is a fiscal period of twelve months which begins with January 1. A *fiscal year* is a fiscal period of twelve months; it may or may not coincide with the calendar year.

Merchandise Inventory. The value of the unsold merchandise is ascertained by *taking stock.* The method of taking stock and listing the merchandise in order to ascertain the value of the merchandise on hand is explained and illustrated on page 87. The value of the merchandise remaining unsold and a list of this merchandise are each referred to as the *merchandise inventory.*

When the cost of merchandise sold is not recorded at the time each sale is made, it is necessary to record the cost of all sales in one amount at the close of the fiscal period. When all the merchandise purchased has been sold, the debit balance of the Purchases account shows the cost of sales. When all the merchandise has not been sold, the balance of the Purchases account will include two things, (1) the cost value of the merchandise sold, and (2) the asset value of the merchandise in stock. When the value of the merchandise inventory is known, the cost of sales may be ascertained by subtracting the inventory from the balance of the Purchases account.

When the cost price of each article sold is not recorded separately as sales are made, the inventory can be proved by a supplementary record of the number of units of each kind of merchandise bought and sold. Thus, if a shoe merchant purchased 100 pairs of shoes of a given style as shown by the purchases invoices and sold 60 pairs of the same style as shown by the sales tickets, he will know that there should be 40 pairs of this style on hand. If a count shows only 38 pairs in stock and the other two cannot be located, he will know that they have been stolen or that sales have not been recorded.

The value of the merchandise in stock may be ascertained at any time but must be known at the close of the fiscal period. The illustration at the right shows a list of merchandise remaining in stock after the purchases and sales recorded in the ledger of E. B. Tate, pages 81 and 82 have been completed This information was obtained by counting the merchandise and listing the number of units of each kind in stock at the cost price.* It is quite evident that if three bedroom suites cost $95.50 each, the total asset value of three is $286.50. The total, $4,047.82, is the asset value of the merchandise in stock.

E. B. TATE

MERCHANDISE INVENTORY, May 31, 19

3	Bedroom Suites	95.50	286	50
2	Bedroom Suites	112.75	225	50
1	Bedroom Suite	197.25	197	25
4	Dining Room Suites	57.50	230	—
3	Dining Room Suites	87.00	261	—
2	Dining Room Suites	109.25	218	50
10	Kitchen Cabinets	27.50	275	—
18	Kitchen Tables	1.50	27	—
9	Refrigerators	16.25	146	25
7	Refrigerators	22.50	157	50
3	Refrigerators	47.00	141	—
16	Rugs	9.50	152	—
8	Rugs	14.76	118	08
3	Rugs	18.25	54	75
12	Doz. Chairs	7.50	90	—
5	Doz. Chairs	11.75	58	75
4	Doz. Chairs	16.00	64	—
5	Doz. Rockers	18.00	90	—
4	Doz. Rockers	33.00	132	—
3	Doz. Rockers	55.00	165	—
21	Doz. Curtains	18.50	388	50
18	Doz. Curtain Rods	1.18	21	24
11	Doz. Curtains	28.00	308	—
5	Doz. Curtains	48.00	240	—
	Value of merchandise on hand...		4047	82

Illustration 11, Merchandise Inventory

*Market price may be used under certain conditions as will be explained in a subsequent chapter.

Exercise 39, Fiscal Period

(ORAL OR WRITTEN)

1. C. H. Rogers began business July 1, continued operation through the succeeding twelve months, and at the end of that time took stock to ascertain the profit. (a) On what day of what month would the period of operation close? (b) Was the period a fiscal year or a calendar year?

2. W. A. Lott began business March 1. If he wishes to regard each month as a fiscal period, (a) when will the first fiscal period end? (b) when will the second fiscal period begin? (c) On what date will the annual fiscal period close?

3. W. L. Bird began business July 1. (a) When will the first fiscal year close? (b) Should W. L. Bird wish to change to a calendar year basis, when would the next fiscal period end?

4. W. J. Ward began business May 1. He wishes to regard each three months as a fiscal period. When does (a) the first fiscal period end? (b) the

second fiscal period begin and end? (c) the third fiscal period begin and end? (d) the fourth fiscal period begin and end?

5. June 30, the stock-taking day, L. A. Joy, a retail clothing merchant, had in stock 16 ⅙ dozen shirts which cost $15.00 per dozen. At what value were these shirts listed on the inventory?
6. At the close of the fiscal period, June 30, Robert Ward, a retail grocer, had in stock 1 barrel of sugar, 320 pounds, which cost $5.50 per hundred pounds. At what value would this sugar be stated on the inventory?
7. The debit balance of the Purchases account is $12,500.00, the credit balance of the Sales account $11,800.00, and the value of the merchandise in stock at the close of the fiscal period $4,300.00. (a) What was the cost of the merchandise sold? (b) What was the profit made by selling this merchandise?
8. D. L. Ray, a retail shoe merchant, paid $550.00 for 100 pairs of shoes at $5.50 per pair. At the close of the fiscal period, June 30, 63 pairs of these shoes remained unsold. At what value will each of these 63 pairs of shoes be listed on the inventory?

Exercise 40, Merchandise Inventory

C. H. Underwood, a dealer in office furniture, had the following merchandise in stock at the close of the fiscal period, May 31:

8 typewriter desks, cost $65.00 each.
5 used typewriters, cost $52.50 each.
8 chairs, cost $4.80 each.
3 flat top desks, cost $27.85 each.
14 looseleaf ledgers, cost $11.50 each.
32 sections No. 9 filing cases, cost $5.35 each.
5 No. 12 filing cases, cost $6.40 each.
250 dozen No. 486 pencils, cost 70c per dozen.
3 dozen rulers, cost $1.75 per dozen.
50 dozen pen points, cost 32c per dozen.

Instructions. Prepare an inventory of this merchandise similar in form to the illustration on page 87.

REPORTS

At the close of a fiscal period, it is customary to report to the owner the value of the assets, the amount of the liabilities, the present proprietorship, and the net profit or loss resulting from the transactions completed during the fiscal period. The written report containing a list of the assets, liabilities, and the present proprietorship is known as the *Balance Sheet.* The report containing a list of the increases (income) or decreases (expense) in proprietorship and the net profit or loss is known as the *Profit and Loss Statement.*

Preliminary Work. Before preparing the Balance Sheet and Profit and Loss Statement, it is customary to ascertain the present capital which will be shown on the Balance Sheet, and the net profit which will be shown on the Profit and Loss Statement, and to prove that each is correct. The equations discussed and illustrated in previous chapters may be used for this purpose. The *Working Sheet*, however, is a more convenient form for securing the desired information. When the present capital and net profit are known, the Balance Sheet and Profit and Loss Statement may be prepared with the assurance that the information stated in each is correct.

Working Sheet. An extended form of the Trial Balance similar to the illustration below is referred to as a *Working Sheet*. The purpose of the six columns at the right of the two columns for the Trial Balance is indicated by the titles of the columns.

E. B. Tate
Working Sheet, May 31, 19

NAME OF ACCOUNT	TRIAL BALANCE DR.	TRIAL BALANCE CR.	ADJUSTMENTS DR.	ADJUSTMENTS CR.	BALANCE SHEET ASSETS	BALANCE SHEET LIAB. & PROP.	P. & L. STATEMENT COSTS & EXP.	P. & L. STATEMENT INCOME
Cash	2089 -				2089 -			
Notes Receivable	1475 -				1475 -			
A. T. Miller	2172 5				2172 5			
C. A. Adams	2775 -				2775 -			
Merchandise Inventory			4047 82		4047 82			
Notes Payable		300 -				300 -		
Dobbs Bros.		1407 95				1407 95		
Grant Mfg Co		1162 90				1162 90		
E. B. Tate, Capital		3500 -				3350 -		
E. B. Tate, Drawing	150 -							
Sales		1405 -						1405 -
Purchases	4686 27			4047 82			6384 45	
Expense	208 33						208 33	
	7775 85	7775 85	4047 82	4047 82	6779 07	6220 85	846 78	
Net Profit						558 22	558 22	
					6779 07	6779 07	1405 -	1405 -

Illustration 12, Working Sheet

The method of preparing the Working Sheet is described briefly in the following paragraphs:

(1) The Trial Balance is copied on the Working Sheet form. The merchandise inventory is entered in the Adjustments Dr., column on a line with Merchandise Inventory to indicate addition, and in the Adjustments Cr., column on a line with Purchases to indicate subtraction; the merchandise inventory is subtracted from the Purchases account and added to the Merchandise Inventory account to record the cost of sales and the merchandise inventory.

(2) The first four account balances on the Trial Balance are assets, hence each balance is extended into the Assets column.

(3) The merchandise inventory entered in the Adjustments Dr. column is an asset, hence is extended into the Assets column.

(4) The next three account balances are liabilities, hence each balance is extended into the Liabilities column.

(5) The balance of the Capital account less the balance of the Drawing account is the net investment (page 73), hence is extended into the Capital column.

(6) The balance of the Sales account is an income, hence is extended into the Income column. The difference between the Purchases account and the amount entered in the Adjustments Cr. column is the cost of sales, hence is extended into the Costs column. The balance of the Expense account is extended into the Expense column.

(7) Each of the four columns is added. The difference between the total assets and sum of the liabilities and invested capital is the net profit (page 63). The difference between the income and the expense is the net profit (page 51). The net profit in both cases should be the same.

The facts obtained from adding the columns expressed in the form of the three equations used in previous chapters for ascertaining proprietorship and profit are:

ASSETS \$6779.07 = LIABILITIES \$2870.85 + PROPRIETORSHIP \$3908.22

INCOME \$1405.00 − EXPENSES \$846.78 = NET PROFIT \$558.22

NET INVESTMENT \$3350.00 + NET PROFIT \$558.22 = PRESENT CAPITAL \$3908.22

Balance Sheet. A formal written report of assets, liabilities and proprietorship is referred to as a *Balance Sheet, Financial Statement,* or *Statement of Assets and Liabilities.* The Balance Sheet contains the following information:

(1) The title which is the name of the owner, the name of the report and the date.

(2) The name and amount of each asset and the total assets.

(3) The name and amount of each liability and the total liabilities.

(4) The proprietorship.

The Balance Sheet may be prepared at any time the value of the merchandise inventory is known but is usually prepared only at the close of the fiscal period. It is prepared in either the *account form* or *report form* as illustrated on page 91. The Balance Sheet columns of the Working Sheet or the balances of the asset and liability accounts and the merchandise inventory provide a basis for the information shown on the Balance Sheet.

The information given on a Balance Sheet shows the condition of the business only on the date of the Balance Sheet. In other words, it shows the financial condition on a *definite date.*

Illustration 13 below is a Balance Sheet in account form prepared from the Balance Sheet columns of the Working Sheet, Illustration 12. The totals stated in equation form are:

ASSETS $6,779.07 = LIABILITIES $2,870.85 + E. B. TATE, CAPITAL $3,908.22

E. B. Tate
Balance Sheet May 31, 19

Assets:			Liabilities:			
Cash		2089 —	Notes Payable		300 —	
Notes Receivable		147 50	Accounts Payable:			
Accounts Receivable:			Dobbs Bros	140795		
A. T. Miller	217 25		Grant Mfg. Co	116290	257085	
C. A. Adams	277 50	494 75	Total Liabilities		287085	
Mdse. Inventory		404782	Proprietorship:			
			E. B. Tate, Present Cap.		390822	
Total Assets		677907	Total Liabilities + Prop.		677907	

Illustration 13, Balance Sheet in Account Form

Illustration 14 shows a Balance Sheet containing the same facts as Illustration 13, prepared in report form. The totals in equation form are:

ASSETS $6,779.07 — LIABILITIES $2,870.85 = E. B. TATE, CAPITAL $3,908.22

E. B. Tate
Balance Sheet May 31, 19

Assets:			
Cash		2089 —	
Notes Receivable		147 50	
Accounts Receivable:			
A. T. Miller	217.25		
C. A. Adams	277.50	494 75	
Merchandise Inventory		404782	
Total Assets			677907
Liabilities:			
Notes Payable		300 —	
Accounts Payable:			
Dobbs Bros.	1407.95		
Grant Mfg. Co.	1162.90	2570.85	
Total Liabilities			2870.85
E. B. Tate, Present Capital			3908.22

Illustration 14, Balance Sheet in Report Form

Profit and Loss Statement. A formal written report of income, expenses and net profit is referred to as a *Profit and Loss Statement, Income and Expense Statement, Statement of Income and Expenses,* or *Loss and Gain Statement.* The Profit and Loss Statement contains the following information:

(1) The title which is the name of the owner, the name of the report and the period to which it is applicable.

(2) The sales, cost of merchandise sold, and gross profit on sales.

(3) The expenses.

(4) The net profit.

The Profit and Loss Statement may be prepared at any time the cost of merchandise sold is known but it is usually prepared only at the close of the fiscal period. It is usually prepared only in one form as illustrated below. The Profit and Loss Statement columns of the Working Sheet, or the Purchases, Sales, and Expense accounts and the merchandise inventory provide a basis for the information shown on the Profit and Loss Statement.

The Profit and Loss Statement shows the net profit for a specific period of time, hence the title should indicate the beginning and closing dates of this period. In other words, the Profit and Loss Statement shows the net profit resulting from operating the business during a *definite period of time.*

E. B. Tate
Profit and Loss Statement for Month Ending May 31, 19

Income from Sales:		
Net Sales		1405 —
Cost of Goods Sold:		
Purchases	4686 27	
Deduct Merchandise Inventory	4047 82	
Cost of Goods Sold		638 45
Gross Profit on Sales		766 55
Operating Costs:		
Expenses		208 33
Net Profit		558 22

Illustration 15, Profit and Loss Statement

The above illustration shows a Profit and Loss Statement prepared from the Profit and Loss columns of the Working Sheet, Illustration 12. The information is similar to that in previous equations in statement form used to ascertain cost of sales, profit on sales and net profit.

The balance of the Purchases account less the merchandise inventory is the cost of sales. The profit on sales is the difference between the balance of the Sales account and the cost of merchandise sold. The net profit is the difference between the profit on sales and the expenses.

Analysis of Proprietorship. Should the owner wish to know the net amount of assets invested in the business and the net amount of assets withdrawn for personal use during the fiscal period, this information may be provided from the balances of the Capital and Drawing accounts and proved to be correct by the addition of the net profit or subtraction of the net loss. The illustration at the right shows the method of preparing this analysis from the balances of the Capital and Drawing accounts shown on the Trial Balance, Illustration 10, and the net profit on the Working Sheet. The net profit less the withdrawals is added to the investment to ascertain present capital, that is, present proprietorship.

Analysis of Proprietorship:		
E. B. Tate, Investment		$3500.00
E. B. Tate, Drawing:		
Net Profit	$558.22	
Withdrawals	150.00	408.22
Present Capital		$3908.22

SUMMARY

Each transaction completed during the fiscal period is recorded so as to show its effect on assets, liabilities and proprietorship.* At the close of the fiscal period the net profit and present proprietorship are ascertained from the Trial Balance and the merchandise inventory through the Working Sheet which is an extended form of the Trial Balance. The Balance Sheet and Profit and Loss Statement are two separate written reports submitted to the owner of the business at the close of the fiscal period. The two reports are submitted to the owner at the same time, hence the bookkeeper may prepare either report first.

The Balance Sheet shows the condition of the business at the close of a fiscal period. It contains (a) the name of the owner, the title of the report and date, (b) list of the assets with the total, (c) list of the liabilities with the total, and (d) the proprietorship.

The account form shows the sum of the assets equaling the sum of the liabilities plus the proprietorship. The report form shows the sum of the assets minus the sum of the liabilities equaling the proprietorship.

The Profit and Loss Statement shows full information regarding the net profit or loss for a definite period. It contains (a) the name of the owner, title of the report and period to which the report is applicable, (b) sales, (c) cost of merchandise sold, (d) profit on sales, (e) expense, and (f) net profit.

The Working Sheet is only a convenient form used for ascertaining the net profit and present proprietorship preparatory to preparing the Balance Sheet and Profit and Loss Statement. If the Working Sheet is not used, the Balance Sheet and Profit and Loss Statements are prepared from the account balances on the Trial Balance and the merchandise inventory. The correctness of each is proved through an analysis of proprietorship.

*When the cost of merchandise sold is not recorded in each sale, the amount of the sale is recorded in the Sales account, and the total cost of all merchandise sold is recorded in one amount at the close of the fiscal period.

Exercise 41, Interpretation of Accounts

(ORAL OR WRITTEN)

1. (a) What is the balance of the account in the illustration at the right? (b) Is it an asset or a liability? (c) Will it appear on the left or right side of a Balance Sheet in account form?

A. M. LANE — City

19				19			
May	10	3	15 76	May	21	5	10 —
	17	4	28 45		30	6	25 —
	23	5	8 20				

2. (a) What is the balance of the account at the left? (b) How may it be proved to be correct? (c) Does it show an asset or a liability? (d) Could it show a credit balance? (e) Why?

CASH

19					19				
May	1	1	1000	—	May	3	1	100	—
	10	3	234	50		4	1	198	75
	25	5	379	21		31	6	125	—

3. (a) What is the balance of the account at the right? (b) Is it an asset or a liability? (c) Will it appear on the left or right side of a Balance Sheet in account form?

LOGAN BROS. — Chicago

19				192				
May	25	5	250 —	May	5	2	431	50
					29	6	129	54

4. (a) What is the balance of the account at the left? Under what conditions is the balance (b) an asset? (c) a cost? (d) both an asset and a cost? (e) Under what titles and on what reports will the asset and the cost be shown?

PURCHASES

19				
May	4	1	198	75
	5	2	431	50
	16	3	587	61

5. (a) What is the balance of the account at the right? (b) Is it an asset or a liability? (c) Will it appear on the left or right side of a Balance Sheet prepared in account form?

NOTES RECEIVABLE

19				
May	18	4	50	—
	22	5	75	—

6. (a) What is the balance of the account at the left? (b) Is it an asset or a liability? (c) Will it appear on the left or right side of a Balance Sheet prepared in account form?

NOTES PAYABLE

19				
May	28	5	200	—

7. The debit balance of the Expense account is $184.00. Will this be shown on the Balance Sheet or Profit and Loss Statement?

8. What information will the bookkeeper need in addition to the Trial Balance for preparing the Balance Sheet and Profit and Loss Statement?

9. How are the assets, liabilities, and proprietorship arranged on the Balance Sheet in which assets = liabilities + proprietorship?

10. How are the assets, liabilities, and proprietorship arranged when the Balance Sheet shows the information as assets − liabilities = proprietorship?

11. Is there any difference in the facts presented by the account form and report form of the Balance Sheet?

12. Total assets, $42,500.00; total liabilities, $15,700.00. What is the proprietorship?

13. What period of time is represented by a Balance Sheet?

14. State the title of a Balance Sheet prepared for G. A. Craft, July 31 of the current year.

15. What period of time is covered by a Profit and Loss Statement?

16. State the title of a Profit and Loss Statement prepared for G. A. Craft, July 31, for an annual fiscal period.

Exercise 42, Working Sheet and Reports

The Trial Balance below shows the account balances resulting from transactions completed by J. C. Parsons, a retail merchant, during the month of March. The merchandise on hand at the close of business, March 31, is given below the Trial Balance. Prepare a Working Sheet, a Balance Sheet in report form showing the present proprietorship, and a Profit and Loss Statement showing the net profit for March.

J. C. PARSONS
TRIAL BALANCE, March 31, 19

1	Cash	1838	40				
2	Notes Receivable	450	75				
3	Robert Shuck	117	25				
5	B. R. Layman	185	50				
6	Merchandise Inventory						
7	Notes Payable				300	—	
8	Dodson & Son				1265	50	
10	Carson Bros.				1255	30	
13	J. C. Parsons, Capital				3259	—	
14	J. C. Parsons, Drawing	200	—				
16	Sales				1500	25	
17	Purchases	4575	60				
19	Expense	212	55				
		7580	05		7580	05	

Notation:
Merchandise Inventory, $3493.25.

Exercise 43, Balance Sheet and Profit and Loss Statement

From the facts given in the Working Sheet below, prepare a Balance Sheet in report form as in Illustration 14 and a Profit and Loss Statement as in Illustration 15.

S. H. ROSS
WORKING SHEET, February 28, 19

Name of Account	Trial Balance		Adjustment		Balance Sheet		Profit and Loss	
	Dr.	Cr.	Dr.	Cr.	Assets	L.& C.	C.& E.	Income
Cash	2464 —				2464 —			
Notes Rec.	500 —				500 —			
Accts. Rec.	1485 —				1485 —			
Mdse. Inv.			4279 —		4279 —			
Notes Payable		125 —				125 —		
Accts. Payable		1325 —				1325 —		
S. H. Ross, Cap.		6787 —				6787 —		
Sales		6426 —						6426 —
Purchases	9829 —			4279 —			5550 —	
Expense	385 —						385 —	
	14663 —	14663 —	4279 —	4279 —	8728 —	8237 —	5935 —	6426 —
Net Profit						491 —	491 —	
					8728 —	8728 —	6426 —	6426 —

Exercise 44, Working Sheet and Reports

The Trial Balance below shows the account balances on the ledger of Walter Green, a retail merchant at the close of the annual fiscal period, December 31 of the current year. Prepare a Working Sheet, Balance Sheet (in report form) and Profit and Loss Statement.

WALTER GREEN
TRIAL BALANCE, December 31, 19

Cash	2247 50	
Notes Receivable	851 50	
J. L. Bane	465 80	
C. H. Loy	214 45	
Merchandise Inventory		
Notes Payable		1000 —
Dodson Bros.		1451 50
Union Mfg. Company		1525 60
Walter Green, Capital		5000 —
Walter Green, Drawing	3385 25	
Sales		28516 90
Purchases	25870 10	
Salary Expense	2240 —	
Rent Expense	1800 —	
Miscellaneous Expense	419 40	
	37494 —	37494 —

Notation:
Merchandise Inventory, $3,155.23

CHAPTER IX

CLOSING THE LEDGER

When the income and expenses are recorded as increases and decreases in the owner's capital account as in Chapter I, the balance of this account will show proprietorship. When the income and expenses are recorded in accounts with Sales, Purchases, and Expense, it is necessary at the close of each fiscal period to close the income and expense accounts into the proprietor's account. The process of closing the income and expense accounts is explained and illustrated in this chapter.

Closing the Ledger. The process of transferring the net profit or net loss shown by the Profit and Loss Statement to the owner's Capital account is referred to as *closing the ledger*. The ledger is closed at the end of each fiscal period.

The process of closing the ledger requires the following:

(1) An entry to adjust the Purchases account so that its balance will show the cost of merchandise sold.

(2) An entry to transfer the balance of each income and expense account to a summary account the title of which is *Profit and Loss Summary*.

(3) An entry to transfer the balance of the Profit and Loss Summary account (net profit or loss) to the account or accounts with the owner.

The entries to adjust and transfer account balances are made in the journal. When these entries have been posted and the accounts that balance ruled, the *ledger is closed*. The only open accounts after the ledger is closed are the asset, liability and capital accounts; these accounts are shown on the Balance Sheet.

Closing Entries. The Working Sheet is usually used as a guide for making the entries necessary to close the ledger. The closing entries are made in the same order as the accounts to be closed appear on the Working Sheet. This is usually in the order outlined in the preceding paragraphs.

Method of Closing the E. B. Tate Ledger. Since closing the ledger requires transferring the balance of one account to another, the process can best be understood from illustrations showing the account balances, the transfer entries and the results of posting these entries. The discussion and illustrations in the following paragraphs relate to the ledger of E. B. Tate on pages 81 and 82. The entries are made in the same order as the adjustments and income and expenses appear in the *Adjustments* and *Profit and Loss Statement columns* on the Working Sheet, page 89.

Entry to Adjust the Purchases Account. The balance of the Purchases account including the beginning merchandise inventory shows the total purchases during the fiscal period. This balance is the cost of merchandise sold if there is no closing merchandise inventory. When there is such an inventory, the cost of merchandise sold is the difference between the balance of the Purchases account and the closing merchandise inventory.

In order to show in the Purchases account the cost of sales, the merchandise inventory is transferred from the Purchases account to the Merchandise Inventory account. The transfer is made by subtracting the inventory from Purchases (this is accomplished by crediting the Purchases account) and adding it to the Merchandise Inventory account (this is accomplished by debiting the Merchandise Inventory account). When this entry is posted the balance of the Purchases account which heretofore has shown two things will show only one, that is, the cost of merchandise sold, and the balance of the Merchandise Inventory account will show the value of the asset merchandise.

The illustration at the right shows (a) the Purchases account as it appears in the ledger on page 82, (b) the entry in the journal to record the merchandise inventory, and (c) the accounts in the ledger after this entry has been posted.

The balance of the Merchandise Inventory account now shows the asset value of the merchandise on hand and the balance of the Purchases account, the cost of the goods sold; "Inven." in the explanation column of the Purchases account explains the entry. Since the amount recorded in the Merchandise Inventory account is the value of the inventory, it is not necessary to write "Purchases" in the explanation column.

PURCHASES

19							19					
May	2		79	2165	42		May	9		79	50	—
	12		79	1162	90							
	29	4686.27	80	1407	95							
				4736	27							

May 31, 19 — Page 81*

81	Merchandise Inventory.....		4047	82	
82	Purchases.....				4047 82
	To record the merchandise inventory.				

MERCHANDISE INVENTORY

19					
May	31		81	4047	82

PURCHASES

19							19					
May	2		79	2165	42		May	9		79	50	—
	12		79	1162	90			31	Inven.	81	4047	82
	29	4686.27	80	1407	95						4097	82
		638.45		4736	27							

The next entry in the process of closing the ledger is to transfer the balance of the Sales account to the Profit and Loss Summary account.

To Close the Sales Account. The credit balance of the Sales account shows the income from sales. It is transferred to the Profit and Loss Sum-

*The preceding journal entries were recorded on pages 79 and 80 of this text, hence "81" is used as the next page in the journal.

mary account. The transfer of the credit balance of the Sales account to the Profit and Loss Summary account is accomplished by subtracting the balance from the Sales account and adding it to the Profit and Loss Summary account. The subtraction is accomplished by a debit to the Sales account and the addition by a credit to the Profit and Loss Summary account.

The illustration at the right shows (a) the Sales account as it appears in the ledger on page 82, (b) the journal entry necessary to transfer the balance of the Sales account to the Profit and Loss Summary account, and (c) the accounts after this entry is posted.

When the journal entry is posted, the Sales account is in balance and is ruled. The credit balance of the Sales account, $1,405.00, is now recorded on the credit side of the Profit and Loss Summary account.

"Sales" and "P. & L." are written in the explanation columns to show the reasons for the entry.

SALES

				19 May	5	79	198	75
					11	79	118	50
					15	79	247	50
					18	80	562	75
					22	80	118	50
					26	80	159	—
							1405	—

19						
31	82	Sales		1405	—	
	83	Profit and Loss Summary				1405 —
		To close the Sales account.				

SALES

19 May	31	P.and L.	81	1405	—	19 May	5	79	198 75
							11	79	118 50
							15	79	247 50
							18	80	562 75
							22	80	118 50
							26	80	159 —
				1405	—				1405 —

PROFIT AND LOSS SUMMARY

19 May	31	Sales	81	1405	—	

The next entry in the process of closing the ledger is to transfer the balance of the Purchases account to the Profit and Loss Summary account.

To Close the Purchases Account. The balance of the Purchases account on page 98, after the value of the merchandise inventory has been recorded on the credit side, shows the cost of the goods sold. If this amount is subtracted from the amount of the sales, the difference will show the income from sales. To make this subtraction, the balance of the Purchases account, $638.45, is transferred to the Profit and Loss Summary account as a debit. The Profit and Loss Summary account is debited to show subtraction from the sales recorded on the credit side; the Purchases account is credited to indicate that the cost of merchandise sold has been taken from this account and transferred to another account.

The illustration at the left shows (a) the Purchases account as it appears on page 98, (b) the Profit and Loss Summary account as it appears after the Sales account has been transferred to it, (c) the entry in the journal to transfer the balance of the Purchases account to the Profit and Loss Summary account and (d) the accounts after this entry has been posted.

PURCHASES

19						19					
May	2		79	2165	42	May	9		79	50	—
	12		79	1162	90		31	Inven.	81	4047	82
	29	*4686.27*	80	1407	95					*4097*	*82*
				4736	*27*						

PROFIT AND LOSS SUMMARY

						19					
						May	31	Sales	81	1405	—

	31					
83	Profit and Loss Summary.....			638	45	
82	Purchases.....					638 45
	To close the Purchases account.					

PURCHASES

19						19					
May	2		79	2165	42	May	9		79	50	—
	12		79	1162	90		31	Inven.	81	4047	82
	29	*4686.27*	80	1407	95		31	P. & L.	81	638	45
				4736	27					4736	27

PROFIT AND LOSS SUMMARY

19						19					
May	31	Pur.	81	638	45	May	31	Sales	81	1405	—

The debit balance of the Purchases account now appears on the debit side of the Profit and Loss Summary account. "Pur." is written in the explanation column of the Profit and Loss Summary account and "P. & L." in the Purchases account.

The next entry in the process of closing the ledger is to transfer the balance of the Expense account to the Profit and Loss Summary account.

To Close the Expense Account. If the Profit and Loss Summary account is to summarize all income and expenses, the debit balance of the Expense account must be transferred to the summary account. To make this transfer, it is necessary to credit the Expense account and debit the Profit and Loss Summary account. Profit and Loss Summary is debited because expenses tend to decrease the proprietorship.

The illustration at the left shows the Expense account as it appears in the ledger on page 82 and the Profit and Loss Summary account as it appears after the sales and cost of sales have been transferred to it as a result of the two preceding closing entries. The journal entry to transfer the

EXPENSE

19						
May	2	Rent	79	83	33	
	31	Salary	80	125	—	
				208	*33*	

PROFIT AND LOSS SUMMARY

19						19					
May	31	Pur.	81	638	45	May	31	Sales	81	1405	—

balance of the Expense account to the Profit and Loss Summary account and the Expense and Profit and Loss Summary accounts after this entry is posted are shown at the right. The Expense account is in balance and is ruled as illustrated. The debit balance of the Expense account, $208.33, now appears on the debit side of the Profit and Loss Summary account. "Expense" and "P. & L." are written in the explanation columns.

			31										
		83	Profit and Loss Summary					208	33				
		82	Expense									208	33
			To close the Expense account.										

EXPENSE

19							19						
May	2	Rent	79	83	33	May	31	P. & L.	81	208	33		
	31	Salary	80	125	—								
				208	33					208	33		

PROFIT AND LOSS SUMMARY

19						19					
May	31	Pur.	81	638	45	May	31	Sales	81	1405	—
	31	Expense	81	208	33						

The concluding entry in the process of closing the ledger is to close the Profit and Loss Summary account.

To Close the Profit and Loss Summary Account. The Profit and Loss Summary account shown last in the preceding illustration contains all of the increases and decreases in proprietorship because of the transactions completed by E. B. Tate and recorded in the ledger on pages 81 and 82. The credit balance is the net increase in proprietorship or net profit. This agrees with the Profit and Loss Statement, Illustration 15, page 92.

The Profit and Loss Summary account may be closed by transferring its balance to the Capital account or by transferring a sufficient amount of the profit to the Drawing account to close that account and by transferring the remainder to the Capital account.

The Capital and Drawing accounts as they appear in the ledger on page 82 and the Profit and Loss Summary account after the Expense account has been closed into it are shown at the right. The entry to transfer the balance of the Summary account to the Drawing and Capital accounts is illustrated on page 102.

E. B. TATE, CAPITAL

						19							
						May	1		79	3500	—		

E. B. TATE, DRAWING

19													
May	9		79	50	—								
	16		79	100	—								
				150									

PROFIT AND LOSS SUMMARY

19						19					
May	31	Pur.	81	638	45	May	31	Sales	81	1405	—
	31	Expense	81	208	33						

The journal entry required to transfer the balance of the Profit and Loss Summary account to the Drawing and Capital accounts and the results of posting this entry are shown in the illustration at the right. The Profit and Loss Summary account is debited as the net profit is subtracted from this account. The Drawing and Capital accounts are credited as the net profit is added to these accounts. The Profit and Loss Summary and Drawing accounts are in balance and are ruled as in the illustration. The profit to remain in the business is recorded in the Capital account.

	19 31			
83		Profit and Loss Summary.....	558 22	
82		E. B. Tate, Drawing.....		150 —
82		E. B. Tate, Capital.....		408 22
		To close the Profit and Loss Summary account.		

E. B. TATE, CAPITAL

19 May	31	Pres Cap	✓	3908	22	19 May	1		79	3500	—
							31	P. & L.	81	408	22
				3908	22					3908	22
						June	1	Pres Cap	✓	3908	22

E. B. TATE, DRAWING

19 May	9		79	50	—	19 May	31	P. & L.	81	150	—
	16		79	100	—						
				150	—					150	—

PROFIT AND LOSS SUMMARY

19 May	31	Pur.	81	638	45	19 May	31	Sales	81	1405	—
	31	Expense	81	208	33						
	31	Drawing	81	150	—						
	31	Capital	81	408	22						
				1405	—					1405	—

The balance of the Capital account shows the present capital. The Capital account may be *balanced* as shown in the illustration and explained on page 107.

Exercise 45, Closing Entries

(ORAL OR WRITTEN)

The accounts in connection with the following questions appear on the ledger of A. W. Mann at the close of the monthly fiscal period, August 31.

1. The Purchases account at the right shows the purchases during a fiscal period. (a) State the entry necessary to record the merchandise inventory of $725.00. (b) What entry will be required to transfer the balance of this account to the Profit and Loss Summary account?

PURCHASES

19 Aug.	2		22	629	50	19 Aug.	3		22	50	—
	15		22	320	50						
	31		22	450	—						
				1400							

2. The Sales account at the left shows the sales and sales returns during a fiscal period. State the entry necessary to transfer the balance to the Profit and Loss Summary account.

SALES

19						19					
Aug.	8		22	61	75	Aug.	6		22	472	21
	24		22	123	34		14		22	355	65
				185	*09*		23		22	289	29
							30		22	306	37
										1423	*52*

3. (a) What does the balance of the Expense account at the right show? (b) State in journal form the entry required to close this account. (c) What account will contain the balance of the Expense account when this entry is posted?

EXPENSE

19					
Aug.	1	Rent	22	75	—
	10	Postage	22	4	50
	18	Repairs	22	25	—
	31	Salary	22	100	—
				204	*50*

4. The Profit and Loss Summary account at the left contains the balances of the accounts which show increases or decreases in proprietorship for a fiscal period. (a) What does this balance show? (b) To what account or accounts will it be transferred? (c) State the journal entry necessary to transfer the net profit to the Capital and Drawing accounts illustrated (Questions 5 and 6) below.

PROFIT AND LOSS SUMMARY

19						19					
Aug.	31	Pur.	23	625	—	Aug.	31	Sales	23	1238	43
	31	Expense	23	204	50						
				829	*50*						

5. The Drawing account at the right shows the drawings during a fiscal period. (a) What does the balance show? (b) If A. W. Mann regards his drawings as expense how would this account be closed? (c) What effect would closing this account as an expense have on the balance of the Profit and Loss Summary account?

A. W. MANN, DRAWING

19				
Aug.	12	22	75	—
	21	22	50	—
	30	22	50	—
			175	—

6. (a) What account may have been debited for the first entry on the credit side of the Capital account below? (b) What account may have been credited for the first entry on the debit side? (c) What account was probably debited for the second entry on the credit side? (d) Where is the corresponding credit for the second entry on the debit side of the Capital account?

A. W. MANN, CAPITAL

19						19					
Aug.	16		22	300	—	Aug.	1		22	3000	—
	31	Pres Cap	✓	2933	93		31		23	233	93
				3233	93					3233	93
						Sept.	1		✓	2933	93

Adjusting and Closing Entries. The illustration below shows the adjusting and closing entries discussed and illustrated on pages 98 to 102, recorded in consecutive order. The first entry adjusts the Purchases account and records the merchandise inventory and cost of sales. The second, third and fourth entries transfer the balances of the Purchases, Sales and Expense accounts to the Profit and Loss Summary account, and the fifth, the balance of the Profit and Loss Summary account to the Capital and Drawing accounts.

PAGE 81

May 31, 19

81	Merchandise Inventory		4047	82	
82	Purchases				4047 82
	To record the merchandise inventory				
	31				
82	Sales		1405	—	
83	Profit and Loss Summary				1405 —
	To close the Sales account				
	31				
83	Profit and Loss Summary		638	45	
82	Purchases				638 45
	To close the Purchases account				
	31				
83	Profit and Loss Summary		208	33	
82	Expense				208 33
	To close the Expense account				
	31				
83	Profit and Loss Summary		558	22	
82	E. B. Tate, Drawing				150 —
82	E. B. Tate, Capital				408 22
	To close the Profit and Loss Summary account				

Illustration 16, Adjusting and Closing Entries

The Ledger Closed. Illustration 17 on pages 105, 106 and 107 shows the ledger after the above adjusting and closing entries have been posted, the accounts ruled and the Capital and Cash accounts balanced. This ledger shows the same information as the ledger on pages 81 and 82 but with the adjusting and closing entries recorded.

The open account balances provide the information for the equation "Assets = Liabilities + Proprietorship."

Cash

19							19						
May	1			79	3500	—	May	2		79	83	33	
	18			80	562	75		3		79	1500	—	
	23			80	100	—		16		79	100	—	
	27		2089.00	80	4622	75		20		80	365	42	
								31		80	125	—	
											2173	75	
								31	Balance	✓	2089	—	
					4262	75					4262	75	
June	1	Balance		✓	2089	—							

Notes Receivable

19													
May	29	20 days		80	147	50							

A. T. Miller

1714 Walnut St, City

19							19						
May	5			79	198	75	May	27		80	100	—	
	27		217.75	80	118	50							
					317	25							

C. A. Adams

932 Day St, City

19													
May	11	30 days		79	118	50							
	26	60 days		80	159	—							
					277	50							

James B. Fall

617 Davis Ave, City

19							19						
May	15			79	247	50	May	23		80	100	—	
								29	20 day note	80	147	50	

Merchandise Inventory

19													
May	31			81	4047	82							

Notes Payable

19							19						
							May	27	30 days	80	300	—	

Dobbs Bros.

Dayton, Ohio.

19													
									Cash $1500.00				
May	3			79	1500	—	May	2	Balance, 20 days	79	2165	42	
	20			80	365	42		29	May 27, 60 days	80	1407	92	
	27	30-day note		80	300	—							

Illustration 17, Ledger Closed, Page 81

Grant Mfg. Co. 420 Spring St. City

					19 May	12	May 11, 30 days	79	1162 90

E. B. Tate, Capital

[illegible]	[illegible]	[illegible]	[illegible]	390822	19 May	1		79	3500 —
						31	P. & L. Summary	81	408 22
				390822					390822
					June	1	Present Capital ✓		390822

E. B. Tate, Drawing

19 May	9		79	50 —	19 May	31	P. & L. Summary	81	150 —
	16		79	100 —					
				150 —					150 —

Sales

19 May	31	P. & L. Summary	81	1405 —	19 May	5		79	19875
						11		79	11850
						15		79	24750
						18		80	56275
						22		80	11850
						26		80	15900
				1405 —					1405 —

Purchases

19 May	2		79	21654 27	19 May	9		79	50 —
	12		79	11629 90		31	Inventory	81	40478 72
	29	486.37	80	14079525		31	P. & L. Summary	81	6384 55
				47362 27					47362 27

Expense

19 May	2	Rent	79	8333	19 May	31	P. & L. Summary	81	20833
	31	Clerk's Salary	80	12500					
				20833					20833

Illustration 17, Ledger Closed, Page 82

Profit and Loss Summary

19						19					
May	31	Purchases	81	638	45	May	31	Net Sales	81	1405	—
	31	Expense	81	208	33						
	31	Drawing	81	150	—						
	31	Capital	81	408	22						
				1405	—					1405	—

Illustration 17, Ledger Closed, Page 83

Post-closing Trial Balance. A Trial Balance prepared from the ledger after the closing entries have been recorded in it and the accounts in balance ruled is referred to as a *Post-closing Trial Balance.*

Illustration 18 below is a Post-closing Trial Balance prepared from the ledger, Illustration 17 on pages 105 and 106. It shows that the ledger is in balance and contains the same facts as the Balance Sheet on page 91.

E. B. Tate
Post-closing Trial Balance, May 31, 19

81	Cash	2089 —	
81	Notes Receivable	147 50	
81	A. T. Miller	217 25	
81	C. A. Adams	277 50	
81	Merchandise Inventory	4047 82	
81	Notes Payable		300 —
81	Dobbs Bros.		1407 95
81	Grant Mfg. Co.		1162 90
81	E. B. Tate, Capital		3908 22
		6779 07	6779 07

Illustration 18, Post-closing Trial Balance

Balancing an Account. When it is desired to rule an account which does not balance and carry the balance down below the ruling on the same page or forward it to a new page, the process is referred to as *balancing* the account. It is customary at the close of the fiscal period to balance the Cash account and the owner's Capital account. The method of balancing these accounts is shown in the illustrations on pages 105 and 106.

SUMMARY

The ledger is closed at the end of the fiscal period. The purpose of closing the ledger is to record the net profit in the Capital account. The Working Sheet is used as a basis for the closing entries.

The cost of sales is recorded on the ledger by recording the merchandise inventory as a debit to the Merchandise Inventory account and a credit to the Purchases account. The cost of merchandise sold, sales, and expenses are summarized in the Profit and Loss Summary account which is a temporary account, opened and closed in connection with the ledger closing. The balance of the Profit and Loss Summary account is transferred to the Capital and Drawing accounts or the Capital account.

When the adjusting and closing entries have been recorded in the journal and ledger, the open accounts in the ledger will provide the needed information for the equation "Assets = Liabilities + Proprietorship."

Exercise 46, Closing the Ledger

The accounts in the ledger below contain a record of the transactions completed by Walter Tull, a retail merchant, during the first monthly fiscal period beginning April 1 and ending April 30. Copy these accounts on ledger paper. Prepare a Working Sheet, Balance Sheet, and Profit and Loss Statement; cash balance, $1,182.25; merchandise inventory, $1,143.55; net profit, $325.80. Prepare the adjusting and closing entries and post. Rule all accounts that balance and balance the Cash and Capital accounts.

CASH

19							19					
April	1		1	2000	—		April	2		1	80	—
	8		1	381	25			3		1	1680	—
	10		1	11	50			5		1	48	75
	12		1	55	75			15		1	45	—
	18		2	291	50			27		2	4	50
	25		2	345	50			30		2	45	—

WALTER TULL, CAPITAL

							19					
							April	1		1	2000	—

SALES

19							19					
April	27	Return	2	4	50		April	8		1	381	25
								12		1	55	75
								18		2	291	50
								25		2	345	50

PURCHASES

19							19					
April	3		1	1680	—		April	10	Return	1	11	50
	5		1	48	75							

RENT EXPENSE

19												
April	2		1	80	—							

SALARY EXPENSE

19												
April	15		1	45	—							
	30		2	45	—							

PRACTICE SET No. 1
RETAIL CLOTHING BUSINESS
R. B. ALLEN, PROP.

The purpose of this set is to provide additional practice in recording transactions so as to show their effect on assets, liabilities and proprietorship. The transactions are to be recorded in the journal and posted to the ledger provided for the set in connection with the exercise blanks; see inside front cover of these blanks. Loose journal and ledger paper may be used if desired.

The transactions to be recorded are representative of those which would be completed in a business of a similar nature.

There are two methods of presenting the lessons in bookkeeping, one through short exercises which develop specific methods of bookkeeping procedure and the other through recording the transactions in a practice set combining the various procedures presented in the short exercises. For this reason the transactions to be recorded in this practice set are a review, providing an opportunity to apply all of the lessons in bookkeeping procedure presented in previous discussions. A knowledge of bookkeeping procedure is of little value unless one can apply it to the recording of transactions completed by a business.

February 1

No. 1. R. B. Allen invested $2,500.00 cash in the retail clothing business.

The purpose of this cash investment is to provide money for purchasing merchandise and paying the operating expenses of the business. Mr. Allen will need more than $2,500.00 to provide the necessary capital for operation but can obtain a part of this needed capital by buying merchandise on credit.

No. 2. Employed two clerks, James Ball, $35.00 per week, and C. A. Duggan, $25.00 per week.

No. 3. Paid $100.00 in cash to C. L. Hull for rent of the building at 410 Main Street for month of February.

The purpose of this payment of cash is to secure a home for the business. Should Mr. Allen require a receipt, it would be in the same form as the one illustrated on page 75.

It is desired to show expenses incident to rent and salaries in separate accounts, hence, "Rent Expense" will be debited for the rent paid.

February 2

No. 4. Purchased a stock of clothing and haberdasheries from the Globe Clothing Company, City, invoice of this date, $1,640.50. The agreement was to pay cash for one-half of this purchase upon delivery of the goods and the remainder within 30 days. The purchases invoice received was similar to the one illustrated on page 75.

Through this transaction, Mr. Allen increases the assets the amount of the purchase. No entry for the cash will be made until it is paid when the goods are delivered.

February 3

No. 5. The merchandise purchased from the Globe Clothing Company has been delivered. Paid this firm $820.25 as per agreement.

Mr. Allen now has less cash and owes the Globe Clothing Company less.

No. 6. Sold C. A. Walker, 325 Chestnut St., City, terms 10 days, sales ticket No. 1, one overcoat, $75.00, 2 shirts at* $2.50.

Record this entry in the journal like the fifth entry on page 79. The explanation should be, "Sales ticket No. 1, 10 days". It is not necessary to describe the items in the entry because these are described in the sales ticket, a copy of which was retained by Mr. Allen.

February 4

No. 7. Purchased merchandise from the Sapiro Clothing Company, City, terms 10 days, invoice dated today, $187.50.

February 5

No. 8. Sold merchandise to charge customers as follows:

B. A. Stein, 116 Smith St., City, sales ticket No. 2, $62.50.
W. R. Hall, 51 Fern St., City, terms 15 days, sales ticket No. 3, $83.75.

No terms in the first sale indicate that the customer should pay the bill on or before the first of the month; the terms in the second sale indicate that the customer should pay the bill on the 20th.

February 6

No. 9. Received $452.85 for cash sales to date.

This transaction results in an increase in the asset cash and an increase in sales.

No. 10. Paid James Ball $35.00 and C. A. Duggan $25.00, salaries for the week.

Debit Salary Expense and credit Cash in one amount for the two salaries. The explanation is "Paid clerks' salaries for the week".

Post the transactions completed this week, and prove cash. The cash balance is $1,972.60. Arrange the accounts as instructed on the inside front cover of the ledger. If loose paper is used, arrange the accounts in the same order as in Illustration 9 on pages 81 and 82. Allow twenty lines for the Cash account, eight lines for R. B. Allen, Capital, fifteen lines for the Sales account, ten lines for the Purchases account, nine lines each for the Salary Expense, Miscellaneous Expense and Profit and Loss Summary accounts, and five lines for each of the other accounts.

*When the word "at" appears between the number of units and the price, it indicates that the price is per unit; without this word, the price applies to the entire quantity. "2 shirts at $2.50" is equivalent to "2 shirts at $2.50 each, total $5.00". Had the statement been "2 shirts, $2.50," the total sale would have been $2.50.

February 8

No. 11. Sold Walter Baer, 1125 Third Ave., City, terms 10 days, sales ticket No. 4, $121.65.

No. 12. Paid the Excelsior Tie Company $65.50 for ties purchased from them and delivered today.

February 9

No. 13. R. B. Allen withdrew $100.00 in cash for personal use.

February 10

No. 14. Purchased merchandise on credit as follows:

Globe Clothing Co., City, terms 30 days, invoice of the 9th, $342.50.

Brown & King, Dayton, terms 10 days, invoice of the 8th, $182.75.; to be delivered by their truck.

Merchandise purchased from business firms in the city is delivered by truck. When the merchandise is purchased from a firm in another city, the purchaser may expect to pay the freight unless the seller has agreed to make delivery. It may be assumed that Dayton is a nearby city and that Brown & King maintain a delivery service free to their customers.

February 11

No. 15. One dozen shirts purchased from Brown & King on the 10th for $16.50 were not the style ordered. Returned them by express collect.

February 12

No. 16. Received $50.00 from C. A. Walker to apply on account.

No. 17. Sold Walter Baer, City, sales ticket No. 5, $120.00. Received cash for one-half of this amount, balance to be paid within 10 days.

Record as in the entries shown at the top of page 55.

February 13

No. 18. Received $365.40 for cash sales during the week.

No. 19. Paid $65.00 for services as follows:
Clerks' salaries for the week, $60.00.
Delivering merchandise $5.00.

Expenses which can not be classed as rent expense or salary expense are entered in the general expense account under the title Miscellaneous Expense.

Post the transactions for the week and prove cash, balance $2,217.50.

February 15

No. 20. Gave the Sapiro Clothing Company a 30-day note for $187.50, balance due Sunday, February 14.

February 16

No. 21. Purchased merchandise from Brown & King, terms 15 days, invoice of the 15th, $107.60.

No. 22. R. B. Allen withdrew $60.00 cash for personal use.

February 17

No. 23. Received a letter from B. A. McDaniels, Concord, with $40.00 inclosed and a request to ship him by parcel post, one suit of clothes and one overcoat which he had selected when he called at the store last week. C. A. Duggan made out sales ticket No. 6 for $90.00, the sale price, and shipped the clothes.

Paid 60c for stamps used to mail the package and charged the amount to B. A. McDaniels. Mr. McDaniels said he would pay the balance when he received his monthly pay-check, February 26.

February 18

No. 24. Received cash from Walter Baer in full for sale of February 8.

No. 25. Paid Brown & King balance due for purchase of February 10.

February 19

No. 26. Purchased merchandise from Brown & King, terms 20 days, invoice of the 18th, $125.30.

February 20

No. 27. Paid Globe Clothing Company one-half of balance remaining unpaid on purchase of February 2. Consider one-half of the 25c to be 13c.

No. 28. Received from W. R. Hall $50.00 on account of sale of February 5 with the promise to pay the balance February 27. Sold him the merchandise listed on sales ticket No. 7, $35.50.

Two entries should be made to record this transaction as illustrated on page 55.

No. 29. Cash sales to date, $299.85.

No. 30. Paid expenses as follows:
Clerks' salaries for the week, $60.00.
Cleaning windows, $1.50.

Post the transactions for the week and prove cash, balance $2,030.52.

February 22

No. 31. Sold merchandise to charge customers:
W. R. Hall, terms 10 days, sales ticket No. 8, $48.50.
C. W. Rogers, 406 O St., City, sales ticket No. 9, $75.25.

No. 32. Received cash from charge customers:

C. A. Walker, on account of sale of February 3, $15.00.

Walter Baer in full of sale of February 12.

February 23

No. 33. B. A. Stein returned one shirt sold him on the 5th and asked credit for $1.25. He also paid $20.00 on account. Credit was allowed for the shirt which he returned as requested and the shirt was placed in stock.

February 25

No. 34. Returned to Brown & King, one dozen collars which the clerk reported included with the merchandise received from them but not listed on the purchases invoice. Paid delivery boy 25c cash to return the collars. It is quite evident that the 25c should be charged to Brown & King.

February 26

No. 35. Sales of merchandise on account:

B. A. Stein, sales ticket No. 10, $58.10.

Walter Baer, sales ticket No. 11, $121.65.

February 27

No. 36. Received from B. A. McDaniels $10.60 in cash and a 30-day note for $40.00 in payment for balance due on purchase of the 17th.

No. 37. Received $316.58 for cash sales during the week.

No. 38. Paid cash as follows:

Clerks' salaries for the week, $60.00.

Telephone services, $3.50.

Gas and Electric, $5.75.

Instructions. (1) Post the transactions for the week, prove cash, balance $2,383.20, and prove the posting by a Trial Balance.

(2) Prepare a Working Sheet from the account balances on the Trial Balance and the merchandise inventory, $887.65.

(3) Prepare a Balance Sheet (report form) and Profit and Loss Statement from the Working Sheet.

(4) Record in the journal the entries necessary to close the ledger in the same form as explained and illustrated in this chapter.

(5) Balance the Cash and Capital accounts.

(6) Prepare a Post-closing Trial Balance.

Exercise 47, Closing the Ledger

The accounts in the ledger below contain a record of the transactions completed by W. B. Hall, a retail merchant, during the first monthly fiscal period beginning July 1 and ending July 31.

Cash

19						19					
July	1	1	1500	—		July	2	1	60	—	
	5	1	745	35			3	1	1182	25	
	14	1	349	15			10	1	924	50	
	20	2	626	75			16	2	4	50	
							31	2	76	50	

W. B. Hall, Capital

						19					
						July	1	1	1500	—	

Sales

						19					
						July	5	1	745	35	
							14	1	349	15	
							20	2	626	75	

Purchases

19											
July	3	1	1182	25							
	10	1	924	50							

Expense

19											
July	2	1	60	—							
	16	2	4	50							
	31	2	76	50							

Instructions. (1) Copy these accounts on ledger paper.

(2) Prepare a Working Sheet, Balance Sheet, and Profit and Loss Statement; cash balance, $973.50; merchandise inventory, $802.00; net profit $275.50. Prepare the adjusting and closing entries and post. Rule all accounts that balance and balance the Cash and Capital accounts.

CHAPTER X

PURCHASES JOURNAL AND SALES JOURNAL

The method of recording transactions in the journal, posting and taking a Trial Balance has been developed in previous chapters. The discussion in this chapter relates to a more efficient method of recording transactions and posting. Short-cut methods are advantageous to the bookkeeper because they increase the value of his services through enabling him to perform a greater volume of work.

Special Journals. All transactions may be recorded in one journal. When this plan is followed, it is necessary to write the name of the account debited and the amount, the name of the account credited and the amount and the explanation for each transaction. When a number of transactions affect the same account in the same way, much time and space can be saved by recording them in a special journal the total of which may be posted to this one account. The title of a special journal is the title of the account to which the total is posted.

In a mercantile business the transactions of more frequent occurrence are those in connection with the purchases and sales of merchandise and the receipts and payments of cash. The special journals used in a mercantile business are the purchases journal, sales journal, cash receipts journal and the cash payments journal. The use of these special journals saves time when transactions are being recorded and posted. When the volume of business is such that one bookkeeper can not record all the transactions, two or more bookkeepers may be employed, each being assigned the work required in connection with recording the transactions in one or more journals.

Purchases Journal. A special journal in which only purchases of merchandise on account are recorded is referred to as the *purchases journal.* The title of this journal indicates that the total is to be posted to the debit side of the Purchases account.

The information needed in order to make a record of merchandise purchased on account is (a) the date of entry, (b) the increase in the asset merchandise because of the purchase, (c) the name and address of the person or firm from whom the purchase was made, (d) the terms including the date of the invoice if payment is to be made in a definite number of days, and (e) the increase in the liability accounts payable because of the purchase.

The desired information is obtained from a list of the merchandise prepared by the seller, usually referred to by the purchaser as a *purchases invoice* and similar to the form illustrated on page 75.

With the proper ruling in the purchases journal it is possible to record all the desired information for one purchase on one horizontal line.

Recording Transactions in the Purchases Journal. The method of recording transactions in the purchases journal and the advantage of its use are further explained by illustration.

During the month of May, E. B. Tate, a retail furniture dealer, purchased merchandise on credit as follows:

2. Dobbs Bros., Dayton, Ohio, terms cash $1,500.00, balance 20 days, invoice of this date, $2,165.42.

12. Grant Manufacturing Co., 420 Spring St., City, terms 30 days, invoice dated May 11, $1,162.90.

29. Dobbs Bros., terms 30 days, invoice dated May 27, $1,407.95.

Each of these transactions increases the asset merchandise and increases the liability accounts payable the amount of the purchase.

The method of recording these transactions in journal form is shown in the illustration at the right. It will be observed that at least four lines are required for each entry in the journal and that the title of the account debited in each entry is "Purchases".

May 2, 19

117	Purchases		2165 42	
117	Dobbs Bros., Dayton, Ohio.			2165 42
	Invoice of May 2, Cash $1500.00, balance 20 days.			
	12			
117	Purchases		1162 90	
117	Grant Mfg. Co., City			1162 90
	Invoice of May 11, 30 days			
	29			
117	Purchases		1407 95	
117	Dobbs Bros.			1407 95
	Invoice of May 27, 30 days			

The effect of these transactions on assets and liabilities, and the additional information needed as recorded in the purchases journal is shown in Illustration 19. The information regarding each purchase is recorded on one line in the purchases journal.

PURCHASES JOURNAL

May 19

DATE	L. F.	ACCOUNT CREDITED	ADDRESS	TERMS	INV. DATE	AMOUNT
2	117	Dobbs Bros	Dayton, Ohio	Cash $1500. Balance 20 days	5/2	2165 42
12	117	Grant Mfg. Co	420 Spring St. City	30 days	5/11	1162 90
29	117	Dobbs Bros		30 days	5/27	1407 95
31	117	Purchases Dr	Total Purchases			4736 27

Illustration 19, Purchases Journal

Posting from the Purchases Journal. Each amount in the "Amount" column is posted to the credit side of the account with the creditor whose name is on the same line. This records in the ledger the increase in liabilities. The date, terms, page and initial (P) of the purchases journal are written in the appropriate columns in the ledger.

The page of the ledger is written in the folio column of the purchases journal, to indicate posting. The posting to the accounts with creditors is usually daily.

At the end of the month or whenever a Trial Balance is to be taken, the purchases journal is ruled and footed as shown in Illustration 19. The total of the "Amount" column, which is the sum of the credits, is posted to the debit of the Purchases account to record the increase in purchases. The page of the Purchases account in the leger is written in the folio column of the purchases journal to indicate that the total has been posted. The ruling of the purchases journal is shown in Illustration 19 and the posting in the accounts at the bottom of this page.

The initial of the book of original entry may be written in the folio column with the page number, or in the explanation column as illustrated below.

The accounts resulting from posting the three journal entries illustrated on page 116 are shown at the left and the accounts resulting from posting the purchases journal, Illustration 19, are shown in the illustration at the right. The process of posting from the journal as illustrated at the left is the same as that described on page 36.

DOBBS BROS. Dayton, Ohio

19			Cash $1500.00				
May	2	Bal. 20 days		116	2165	42	
	29	5/27 30 ds.		116	1407	95	
					3573	*37*	

GRANT MFG. CO. 420 Spring St., City

19							
May	12	5/11 30 ds		116	1162	90	

PURCHASES

19					
May	2		116	2165	42
	12		116	1162	90
	29		116	1407	95
			4736	*27*	

A comparison of the above ledger with the one below shows that the information in the account with each creditor is the same, but that the Purchases account in the one on the left has three amounts recorded, while the one on the right has only one amount. Thus a saving of two lines in the ledger is effected as well as the time required to post these two amounts

DOBBS BROS. Dayton, Ohio

19			Cash $1500.00				
May	2	Bal. 20 days	P	116	2165	42	
	29	5/27 30 ds.	P	116	1407	95	
					3573	*37*	

GRANT MFG. CO. 420 Spring St., City

19							
May	12	5/11 30 ds.	P	116	1162	90	

PURCHASES

19					
May	31	P	116	4736	27

and to indicate the posting. This further emphasizes the saving in time through the use of the purchases journal as a book of original entry for recording transactions in which merchandise is purchased on credit.

The illustration at the right is a Trial Balance prepared from either ledger on page 117. The final results as shown in the account balances are the same whether the purchases are recorded in the purchases journal or in the one journal.

E. B. TATE
TRIAL BALANCE, May 31, 19

117	Dobbs Bros.		3573	37
117	Grant Mfg. Co.		1162	90
117	Purchases	4736 27		
		4736 27	4736	27

Exercise 48, The Purchases Journal

(ORAL OR WRITTEN)

1. Purchased merchandise from B. A. Ames, Toledo, terms 30 days, $350.00. (a) What accounts are debited and credited? (b) State the entry to record this transaction in the journal; (c) the purchases journal.
2. The total of the purchases journal, March 31, is $4,165.22. How will this be posted?
3. The debit column of the Trial Balance, March 31 (Question 2), was $10.00 more than the credit column. This resulted from an error in the addition of the purchases journal. What was the correct amount of the purchases for March?
4. During the month of May, H. M. Lowe, a retail merchant, made 320 purchases of merchandise on credit. How many lines would be required to record these transactions in (a) the journal with four lines for each entry? (b) the purchases journal similar to Illustration 19? How many lines would be required in the Purchases account to post from (c) the journal? (d) the purchases journal? (e) If there are 80 horizontal lines on the two sides of a sheet in the ledger and books of original entry, about how many pages would be saved through the use of the purchases journal?
5. April 9. Purchased merchandise from H. T. Harris, Rochester, terms 60 days from June 1 next, $485.75. State this transaction recorded in (a) the purchases journal; (b) the account with the creditor. (c) When will this purchase be due?

Exercise 49, Posting from the Purchases Journal

The purchases journal at the top of page 119 shows a record of the purchases made during the month of January by H. H. Goodman, a retail grocer.

Instructions. Post (allow five lines for each account), and prove the posting by a Trial Balance.

Exercise 49—Continued

PURCHASES JOURNAL

January 19

DATE	L. F.	ACCOUNT CREDITED	ADDRESS	TERMS	INV. DATE	AMOUNT
2		Brown & Co.	Elmwood		1/2	77 30
3		Knox Bros.	City		1/2	134 95
10		Hazen & Lockhart	Danville		1/8	228 60
15		Brown & Co.			1/13	226 —
17		Lake View Creamery	Lake View	20 days	1/14	28 —
23		J. Allen Smith & Co.	Rockford	10 days	1/21	197 10
27		Donaldson Bros.	City		1/26	172 75
31		Purchases Dr.	Total Purchases			1064 70

THE SALES JOURNAL

Sales Journal. A special journal in which only charge sales are recorded is referred to as the *sales journal.* The title of this journal indicates that the total is to be posted to the credit of the Sales account.

The information needed in connection with a sale on account is (a) the date of the entry, (b) the increase in the asset accounts receivable, (c) the name and address of the person or firm to whom the sale was made, (d) the terms, if special, (e) the increase in sales.

The charge customer is given a list of the merchandise purchased by him in the form of a sales ticket or a sales invoice as illustrated on pages 76 and 174. A copy of this list is used as a basis for the entry in the sales journal. The sales tickets or sales invoices are numbered consecutively; the copies are filed by number for reference.

With the proper ruling in the sales journal all needed information for one sale may be recorded on one line. If desired, the carbon copies of the sales invoices punched to fit a loose leaf binder and filed numerically may constitute the sales journal. In either case the copy of the sales ticket or sales invoice provides the basis for the sales journal.

Recording Transactions in the Sales Journal. The method of recording transactions in the sales journal and the advantage of its use are further explained by illustration.

During the month of May, E. B. Tate, a retail furniture dealer, completed the following sales of merchandise on credit. When no terms are stated, the amount is due the first of the following month as explained on page 47. The terms on a sale of this nature are sometimes referred to as "on account".

5. A. T. Miller, 1214 Walnut St., City, sales ticket No. 1, $198.75.
11. C. A. Adams, 932 Day St., City, terms 30 days, sales ticket No. 2, $118.50.
15. James B. Fall, 617 Davis Ave., City, sales ticket No. 3, $247.50.

22. A. T. Miller, sales ticket No. 4, $118.50.
26. C. A. Adams terms 60 days, sales ticket No. 5, $159.00.

Each of these transactions increases the asset accounts receivable and increases the income sales the same amount.

The illustration at the right shows the method of recording these transactions in the journal. Four lines are required for each entry and the title of the account credited in each is "Sales".

The effect of these transactions on the accounts receivable and sales and the additional information needed are shown recorded in the sales journal, Illustration 20 below. The information regarding each sale is recorded on one line in the sales journal.

May 5, 19

121	A. T. Miller, 1214 Walnut St..	198 75	
121	Sales.....		198 75
	Sale No. 1.		
	11		
121	C. A. Adams, 932 Day St.....	118 50	
121	Sales.....		118 50
	Sale No. 2, 30 days.		
	15		
121	James B. Fall, 617 Davis Ave.	247 50	
121	Sales.....		247 50
	Sale No. 3.		
	22		
121	A. T. Miller.....	118 50	
121	Sales.....		118 50
	Sale No. 4.		
	26		
121	C. A. Adams.....	159 —	
121	Sales.....		159 —
	Sale No. 5, 60 days.		

SALES JOURNAL

May 19

DATE	L. F.	ACCOUNT DEBITED	ADDRESS	TERMS	SALE NO.	AMOUNT
5	121	A. T. Miller	1214 Walnut St. City,		1	198 75
11	121	C. A. Adams	932 Day St. City	30 days	2	118 50
15	121	James B. Fall	617 Davis Ave. City		3	247 50
22	121	A. T. Miller			4	118 50
26	121	C. A. Adams		60 days	5	159 —
31	121	Sales Cr	Total Sales			842 25

Illustration 20, Sales Journal

Posting from the Sales Journal. Each amount in the "Amount" column of the sales journal is posted to the debit side of the account with the charge customer whose name is on the same line. This records on the ledger the increase in the asset accounts receivable. The date, terms, page and initial (S) of the sales journal are written in the appropriate columns in the ledger.

The ledger page is written in the folio column of the sales journal to indicate posting. The posting to the accounts with customers is usually daily.

At the end of the month or whenever a Trial Balance is to be taken, the sales journal is ruled and footed as shown in Illustration 20. The total of the "Amount" column, which is the sum of the debits, is posted to the credit of the Sales account to record the increase in sales. The page of the Sales account in the ledger is written in the folio column of the sales journal to indicate that the total has been posted. The ruling of the sales journal is shown in Illustration 20 and the posting in the accounts at the bottom of this page.

The illustration at the left below shows the accounts resulting from posting the five journal entries shown at the top of page 120. The illustration at the right below shows the accounts resulting from posting the sales journal, Illustration 20 on page 120. The process of posting from the journal is the same as that described on page 36. The process of posting from the sales journal is explained on page 120.

A. T. MILLER 1214 Walnut St., City

19						
May	5			120	198	75
	22			120	118	50
					317	25

C. A. ADAMS 932 Day St., City

19						
May	11	30 days		120	118	50
	26	60 days		120	159	—
					277	50

JAMES B. FALL 617 Davis Ave., City

19						
May	15			120	247	50

SALES

19					
May	5		120	198	75
	11		120	118	50
	15		120	247	50
	22		120	118	50
	26		120	159	—
				842	25

A comparison of the ledger at the left above with that at the right below shows that both contain the same account balances. The Sales account resulting from posting the journal contains five amounts on the credit side while the Sales account in the other ledger contains the sum of these five amounts stated in one amount. This illustrates the efficiency of the sales journal through a saving of time and space.

A. T. MILLER 1214 Walnut St., City

19						
May	5		S1	198	75	
	22		S4	118	50	
				317	25	

C. A. ADAMS 932 Day St., City

19						
May	11	30 days	S2	118	50	
	26	60 days	S5	159	—	
				277	50	

JAMES B. FALL 617 Davis Ave., City

19						
May	15		S3	247	50	

SALES

19					
May	31	S1	842	25	

The illustration at the left is a Trial Balance prepared from either ledger on page 121. The final results as shown in the account balances are the same whether the sales are recorded in the sales journal or in the one journal.

E. B. TATE
TRIAL BALANCE, May 31, 19

121	A. T. Miller	317	25		
121	C. A. Adams	277	50		
121	James B. Fall	247	50		
121	Sales			842	25
		842	25	842	25

Exercise 50, The Sales Journal

(ORAL OR WRITTEN)

1. Sold merchandise to C. H. Steele, Memphis, terms 10 days, $127.50. (a) What accounts are debited and credited? State the entry to record this transaction in (b) the journal; (c) the sales journal.
2. The total of the sales journal, April 30, is $5,420.75. How will this be posted?
3. The debit column of the Trial Balance, April 30 (Question 2), was $10.00 more than the credit column. This resulted from an error in the addition of the sales journal. What was the correct amount of the sales for April?
4. April 15. Sold merchandise to C. O. Parsons, Atlanta, terms 30 days from June 1 next, $325.50. State this transaction recorded in (a) the sales journal; (b) the account with the customer; (c) When will this sale be due?
5. State the posting for each entry in the sales journal given below.

April 19

Date	L.F.	Account Debited	Address	Terms	Sale No.	Amount	
3		Morton Bros.	516 Elm St., City	20 days	316	1098	76
15		Huber Mfg. Co.	Syracuse	90 days	317	564	21
17		Dawson & Co.	Springfield	30 days	318	307	65

6. The sales journal contains five entries with amounts as follows: $36.27, $55.14, $29.18, $17.26, and $104.71. (a) State the method of posting the total. (b) If the total posted is $243.57, what effect will the error have on the Trial Balance?
7. What would be the entry in journal form for each entry in the sales journal illustrated below?

May 19

Date	L.F.	Account Debited	Address	Terms	Sale No.	Amount	
1		Robert A. Cox	Millville	30 days	116	62	55
2		B. L. Simpson	Jonesboro	30 days	117	52	96

Exercise 51, Posting from the Sales Journal

The sales journal below shows a record of the sales made during the month of March by W. J. Wheeler, a wholesale merchant.

March 19 — SALES JOURNAL

DATE	L. F.	ACCOUNT DEBITED	ADDRESS	TERMS	SALE NO.	AMOUNT
3		E. M. Miller	507 Lee St., City	30 days	107	125 50
8		Williams & Wallace	Evanston	60 days	108	114 50
12		B. T. Hartman & Co.	Memphis	30 days	109	132 50
14		Simon Levi	162 Third St., Uniontown	30 days	110	141 65
18		Frye Bros.	20 Main St., City	90 days	111	112 75
20		The Long Construction Co.	Charleston	30 days	112	192 50
24		E. M. Miller		60 days	113	121 55
27		Williams & Wallace		30 days	114	59 75
29		B. T. Hartman & Co.			115	165 25
31		Sales Cr.	Total Sales			1165 95

Instructions. Post, allowing five lines for each account, and prove the posting by a Trial Balance.

Exercise 52, Recording Purchases and Sales

During the month of February, W. A. Gardner, a retail hardware merchant, made the following purchases and sales of merchandise on credit:

1. Purchased from B. A. Ames, Toledo, 30 days, invoice of today, $350.00.
4. Sold C. H. Steele, 106 Pine St., City, 10 days, Sale No. 81, $114.25.
5. Purchased from H. M. Lowe, Nashville, 30 days, invoice of February 3, $325.50.
6. Sold Gilman Hotel, City, 30 days, Sale No. 82, $37.35.
14. Sold C. H. Steele, 10 days, Sale No. 83, $50.40.
18. Purchased from J. P. Benson, Cleveland, 60 days, invoice of February 15, $563.75.
20. Sold A. L. Bradley, 12 S. Main St., City, Sale No. 84, $154.25.
25. Sold Gilman Hotel, 30 days, Sale No. 85, $27.32.
28. Sold J. W. Macon, Memphis, 20 days, Sale No. 86, $65.60.

Instructions. (1) Rule a purchases journal and a sales journal similar to the forms in Exercises 49 and 51, and record the above transactions.

(2) Post, allowing four lines for each account, and prove the posting by a Trial Balance.

CHAPTER XI

THE CASH BOOK

Transactions in which cash is received or paid may be recorded in the journal and the information posted from these entries. The same information may be obtained more efficiently through the use of the cash receipts journal and the cash payments journal. The discussion in this chapter relates to the method of recording cash receipts and payments in separate journals or in the cash book.

The Cash Receipts Journal. A special journal in which only cash receipts are recorded is referred to as a *cash receipts journal.* The title of this journal indicates that the total is to be posted to the debit side of the Cash account. Recording all the cash receipts in the same journal and recording no other transactions in it permits ascertaining the total amount of cash received before posting to the Cash account.

The information needed in connection with the recording of a cash receipt is (a) date of the entry, (b) the increase in the asset cash, (c) the decrease in some other assets, increase in income or the increase in liabilities, and (d) any necessary explanation of the transaction. The desired information is obtained from the check received (page 77), or receipt stub (page 77) when currency is received.

With the proper ruling in the cash receipts journal, it is possible to record all the desired information for each transaction on one horizontal line.

Recording Cash Receipts. The method of recording transactions in the cash receipts journal and the advantage of its use are further explained by illustration.

During the month of May, E. B. Tate, a retail furniture dealer, completed the following transactions in which cash was received:

1. E. B. Tate invested cash, $3,500.00, in the retail furniture business.

18. Received $562.75 for cash sales.

23. Received cash, $100.00, from James B. Fall to apply on account.

27. Received check for $100.00 from A. T. Miller to apply on account.

Each of the four transactions increases the asset cash. The first increases the proprietorship, the second increases the sales, and the third and fourth decrease the asset accounts receivable.

The method of recording these four transactions in the journal is shown in the illustration at the top of page 125.

A minimum of four horizontal lines is required to record each transaction in the journal. The Cash account is debited in each transaction.

The same effect is recorded in the cash receipts journal shown in the illustration below. Only five horizontal lines are required to record the four transactions thus effecting a saving of many horizontal lines in the book of original entry. This saving of space demonstrates the efficiency of the cash receipts journal as a means of recording transactions in which cash is received.

	May 1, 19				
126	Cash	3500	—		
126	E. B. Tate, Capital			3500	—
	Invested cash in retail furniture business.				
	18				
126	Cash	562	75		
126	Sales			562	75
	Received for cash sales.				
	23				
126	Cash	100	—		
126	James B. Fall			100	—
	Received cash to apply on account.				
	27				
126	Cash	100	—		
126	A. T. Miller			100	—
	Received cash to apply on account.				

CASH RECEIPTS

DATE	L. F.	ACCOUNT CREDITED	EXPLANATION	AMOUNT
19				
May 1	126	E. B. Tate Capital	Investment	3500 —
18	126	Sales	Cash sales	562 75
23	126	James B. Fall	On account	100
27	126	A. T. Miller	On account	100
				4262 75
31	126	Cash Dr.	Total Receipts	4262 75

Illustration 21, Cash Receipts Journal

Posting from the Cash Receipts Journal. Each amount in the "Amount" column is posted to the credit side of the account written on the same line with it. The date of the transaction, and the page and title (C) of the book of original entry are entered in the appropriate columns in the ledger; see illustration bottom of page 126. Completion of the posting is indicated in the cash receipts journal by placing the ledger page in the folio column; see above illustration. The posting of the credits from the cash receipts journal is usually completed daily.

At the end of the month or whenever a Trial Balance is to be taken, the cash receipts journal is ruled and footed as in Illustration 21. The total of the

"Amount" column is posted to the debit side of the Cash account; the page of the Cash account is written in the folio column of the cash receipts journal.

CASH

19					
May	1	125	3500	—	
	18	125	562	75	
	23	125	100	—	
	27	125	100	—	
			4262	75	

JAMES B. FALL

19				
May	23	125	100	—

A. T. MILLER

19				
May	27	125	100	—

E. B. TATE, CAPITAL

19				
May	1	125	3500	—

SALES

19				
May	18	125	562	75

The ledger at the left shows the results of posting the journal entries at the top of page 125. A Trial Balance from this ledger is shown in the illustration at the top of page 127.

The ledger below and at the right shows the results of posting the cash receipts journal, Illustration 21, on page 125. A Trial Balance prepared from this ledger is shown in the illustration at the top of page 127.

A comparison of the two ledgers shows that both contain the same account balances. The only difference is that the Cash account in the ledger resulting from posting the journal contains four amounts and the Cash account in the ledger resulting from posting the cash receipts journal contains only one amount. The debit balance of the Cash account is the same in both cases. The saving of three horizontal lines in the ledger as a result of the cash receipts journal demonstrates the efficiency of the cash receipts journal through a saving of time and space.

CASH

19						
May	31	C	125	4262	75	

JAMES B. FALL

19					
May	23	C	125	100	—

A. T. MILLER

19					
May	27	C	125	100	—

E. B. TATE, CAPITAL

19					
May	1	C	125	3500	—

SALES

19					
May	18	C	125	562	75

A Trial Balance. The illustration below is a Trial Balance prepared from either ledger on page 126. The final results as shown in the account balances are the same whether the cash receipts are recorded in the cash receipts journal or in the one journal.

E. B. TATE
TRIAL BALANCE, May 31, 19

126	Cash	4262	75		
126	James B. Fall			100	—
126	A. T. Miller			100	—
126	E. B. Tate, Capital			3500	—
126	Sales			562	75
		4262	75	4262	75

Exercise 53, Cash Receipts Journal

(ORAL OR WRITTEN)

1. Received $78.65 for cash sales of merchandise. State the method of recording this transaction in (a) the journal; (b) the cash receipts journal.
2. Received $25.00 from C. H. Jones, a charge customer, to apply on account. State the method of recording this transaction in (a) the journal; (b) the cash receipts journal.
3. Received $12.50 for merchandise purchased for cash and returned to the one from whom it was purchased. State the method of recording this transaction in (a) the journal; (b) the cash receipts journal.
4. May 31. The total cash receipts for the month is $3,218.65. How is this posted?
5. From what stub is the entry on the receipts side of the cash book made?
6. When is the cash receipts journal ruled?
7. Received $42.50 from A. L. Fall: $32.50, in full of account; and $10.00 for a cash sale. State the method of recording this transaction in the cash receipts journal and ledger.
8. The total of the cash receipts journal, June 30, was $4,235.50. The credit column of the Trial Balance, May 31, was $2.00 more than the debit column. This resulted from an error in the addition of the cash receipts journal. What should have been recorded in the Cash account as the cash receipts for the month?

CASH PAYMENTS JOURNAL

The Cash Payments Journal. A special journal in which only cash payments are recorded is referred to as a *cash payments journal.* The title of this journal indicates that the total is to be posted to the credit side of the Cash account. Recording all cash payments in the same journal permits ascertaining the total amount of cash paid before posting to the Cash account. Since the total cash received and recorded in the cash receipts journal may be known before posting, it is customary to prove cash before posting either the total cash receipts or the total cash payments

The information needed in connection with the recording of a cash payment is (a) the date of the entry, (b) the decrease in liabilities, the increase in some other asset or decrease in proprietorship, (c) any necessary explanation of the transaction and (d) the decrease in the asset cash. This desired information is obtained from the receipt (page 75), or from the check stub (page 76).

With the proper ruling in the cash payments journal, it is possible to record the information for each transaction on one horizontal line.

Recording Cash Payments. The method of recording transactions in the cash payments journal and the advantage of its use are further explained by illustration.

During the month of May, E. B. Tate, a retail furniture dealer, completed the following transactions in which cash was paid:

2. Paid cash, $83.33, for May rent.
3. Gave Dobbs Bros. a check for $1,500.00 on account.
16. E. B. Tate withdrew cash, $100.00, for personal use.
20. Gave Dobbs Bros. a check for $365.42 to apply on account.
31. Paid cash, $125.00, for salary of clerk for the month.

Each of the five transactions decreases the asset cash. The first and fifth increase the expense; the second and fourth decrease the liability accounts payable; and the third decreases the proprietorship.

The method of recording these five transactions in the journal is shown in the illustration at the right. A minimum of four lines is required to record each transaction in the journal. The Cash account is credited in each transaction.

The same effect is recorded in the cash payments journal in the illustration on page 129. Only six horizontal lines are required to record the five transactions thus effecting a saving of many horizontal lines in the book of original entry. This saving of space demonstrates the efficiency of the cash payments journal.

May 2, 19

129	Expense		83	33	
129	Cash				83 33
	Paid cash for May rent.				
	3				
129	Dobbs Bros.		1500	—	
129	Cash				1500 —
	Paid cash on account.				
	16				
129	E. B. Tate, Drawing		100	—	
129	Cash				100 —
	Withdrew cash for personal use.				
	20				
129	Dobbs Bros.		365	42	
129	Cash				365 42
	Paid cash on account.				
	31				
129	Expense		125	—	
129	Cash				125 —
	Paid clerk's salary for the month.				

CASH PAYMENTS

DATE	L. P.	ACCOUNT DEBITED	EXPLANATION	AMOUNT
19 May 2	130	Expense	Rent for May	83 33
3	130	Dobbs Bros.	On account	1500 —
16	130	E. B. Tate, Drawing	For personal use	100 —
20	130	Dobbs Bros.	On account	365 42
31	130	Expense	Clerk's salary for May	125 —
31	130	Cash Cr.	Total Payments	2173 75

Illustration 22, Cash Payments Journal

Posting from the Cash Payments Journal. Each amount in the "Amount" column is posted to the debit side of the account written on the same line with it. The date of the transaction and the page and title (C) of the book of original entry are entered in the appropriate columns of the ledger; see illustration on page 130. Completion of the posting is indicated in the cash payments journal by placing the ledger page in the folio column. Usually the posting of the debits from the cash payments journal is completed daily.

At the end of the month or whenever a Trial Balance is to be taken, the cash payments journal is ruled and footed as in the illustration above. The total of the "Amount" column is posted to the credit side of the Cash account in the ledger. Completion of the posting is indicated by placing the page of the Cash account in the folio column of the cash payments journal.

The ledger at the right is the result of posting the journal, page 128. The transactions are the same as those recorded in the cash payments journal, hence the account balances are the same as in the ledger illustrated on page 130. The Cash account in the ledger resulting from posting the journal contains five amounts and the Cash account in the ledger resulting from post ing the cash payments journal contains only one amount. This demonstrates the efficiency of the cash payments journal through a saving of time and space.

CASH

19 May	2		128	83 33	
	3		128	1500 —	
	16		128	100 —	
	20		128	365 42	
	31		128	125 —	
					2173 75

DOBBS BROS.

19 May	3		128	1500 —	
	20		128	365 42	
					1865 42

E. B. TATE, DRAWING

19 May	16		128	100 —	

EXPENSE

19 May	2	Rent	128	83 33	
	31	Sal.	128	125 —	
					208 33

The ledger in the illustration at the left is the result of posting the cash payments journal, Illustration 22. With the exception of E. B. Tate, Drawing and Expense, the accounts do not show their true value because the cash receipts have not been posted from the cash receipts journal and the credits to the account with Dobbs Bros. have not been posted from the purchases journal. The illustration does show, however, that when the posting from the cash payments journal is completed, the debits and credits recorded in the ledger are equal.

CASH

				19			
				May	31	C 129	2173 75

DOBBS BROS.

19							
May	3		C 129	1500	—		
	20		C 129	365	42		
				1865	42		

E. B. TATE, DRAWING

19							
May	16		C 129	100	—		

EXPENSE

19							
May	2	Rent	C 129	83	33		
	31	Sal.	C 129	125	—		
				208	33		

Trial Balance. The illustration at the left is a Trial Balance prepared from either the ledger at the bottom of page 129 or the one at the top of this page. The final results are the same whether the cash payments are recorded in the cash payments journal or in the one journal.

E. B. TATE,
TRIAL BALANCE, May 31, 19

129	Cash					2173	75
129	Dobbs Bros.		1865	42			
129	E. B. Tate, Drawing		100	—			
129	Expense		208	33			
			2173	75		2173	75

Exercise 54, Cash Payments Journal

(ORAL OR WRITTEN)

1. Paid $98.25 for cash purchase of merchandise. State the method of recording this transaction in (a) the journal; (b) the cash payments journal.
2. Paid $25.00 to Solomon Bros., a creditor, to apply on account. State the method of recording this transaction in (a) the journal; (b) cash payments journal.
3. Paid $10.75 for merchandise sold for cash and returned by the one to whom it was sold. State the method of recording this transaction in (a) the journal; (b) the cash payments journal.
4. April 30. The total cash payments for the month are $2,752.40. How is this posted from the cash payments journal?

5. From what stub is the entry on the payments side of the cash book made?
6. When is the cash payments journal ruled?
7. Paid $51.20 to Johnson Supply Co.: $39.80, in full of account and $11.40 for a cash purchase. State the method of recording this transaction in the cash payments journal and ledger.
8. The total of the cash payments journal, June 30, was recorded as $2,240.75. The credit column of the Trial Balance, June 30, was $5.00 more than the debit column. This resulted from an error in addition in the cash payments journal. What amount should have been recorded in the Cash account as the cash payments for the month?

THE CASH BOOK

The cash receipts journal and cash payments journal are frequently combined into one book for the convenience of the bookkeeper. This form is called the *cash book*. The left page of the cash book is used to record cash receipts and the right page for cash payments. This arrangement makes it convenient for the bookkeeper to secure the cash balance (the difference between the receipts and expenditures) each day or at frequent intervals, and thus prove the accuracy of his work. The cash book is commonly used only when one bookkeeper can record all of the cash receipts and payments.

When the cash receipts and cash payments journals are combined into the cash book, it is customary to provide an extra column on each side. The extra column on the receipts side is for the balance at the beginning of the month and the total cash receipts at the end of the month, and on the payments side for the total payments during the month.

The cash receipts and cash payments journals, Illustrations 21 and 22, are shown in cash book form in Illustration 23, pages 132 and 133.

Posting from the Cash Book. The posting from the cash book is the same as posting from the cash receipts journal and cash payments journal. Each amount on the receipts side is posted to the credit of the account written on the same line with it. The total receipts are posted to the debit side of the Cash account. Each amount on the payments side is posted to the debit side of the account written on the same line with it. The total payments are posted to the credit of the Cash account.

Cash Proof. Since the beginning balance and the cash receipts are recorded on the receipts side of the cash book and the cash payments on the payments side, the difference between the totals of each side should be the cash on hand. The cash is usually proved daily and always before posting.

The proof is made in the following manner:

(1) Add the receipts side of the cash book and enter the total in small pencil figures as in Illustration 23, page 132.

(2) Foot the payments side of the cash book and enter the total in small pencil figures as in Illustration 23, page 133.

CASH

RECEIPTS

DATE	L. F.	ACCOUNT CREDITED	EXPLANATION	AMOUNT	TOTAL
19-- May 1	126	E. B. Tate Capital	Investment	3500 —	
18	126	Sales	Cash Sales	562 75	
23	126	James B. Tall	On account	100 —	
27	126	A. T. Miller	On account	100 —	
				4262 75	
31	126	Cash Dr.	Total Receipts		4262 75
					4262 75
June 1	✓	Balance on hand			2089 —

Illustration 23, Receipts Side of Cash Book

(3) Add the balance on hand at the beginning of the month and the total of the receipts and from this sum subtract the total of the payments.

(4) The difference between the total cash receipts, which includes the cash on hand at the beginning of the month, and the total cash payments should be the same as the cash on hand or the cash on hand plus the balance in the bank. This is known as the *cash proof.*

Cash Over and Short. When the cash does not prove, it is necessary to verify all calculations to detect the error. When the error can not be detected, it may be recorded in an account with the title "Cash Over and Short". The method of handling cash should be such that proof may be effected, making an account for errors unnecessary.

Ruling the Cash Book. The cash book is ruled with single and double lines at the end of each month as in the illustration above and on the opposite page. The single lines are drawn on the same line on each side and the double lines one line below the single lines. The single lines are drawn across the dollars and cents columns only and the double lines across the same columns and the folio and date columns as in the illustration.

When the cash book is ruled, the balance is entered on the payments side to make the two sides equal and carried down below the ruled lines, or to the top of a new page, under date of the next business day as in the illustration. It is customary when ruling the cash book to begin the transactions for the next month at the top of the page so that receipts and payments will be opposite each other.

Exercise 55, Cash Book

(ORAL OR WRITTEN)

1. "May 6. Received $21.65 for cash sales to date." State the method of recording this transaction.

CASH

				PAYMENTS	
DATE	L. F.	ACCOUNT DEBITED	EXPLANATION	AMOUNT	TOTAL
May 2	150	Expense	Rent for May	83 33	
3	130	Dobbs Bros.	On account	1500 —	
16	130	E. Bates, Drawing	For personal use	100 —	
20	130	Dobbs Bros.	On account	365 42	
31	130	Expense	Clerk's salary for May	125 —	
31	130	Cash Cr.	Total Payments	2173 75	2173 75
					4262 75

Illustration 23, Payments Side of Cash Book

2. "April 1. Paid April rent, $83.33." State the method of recording this transaction.

3. "March 11. Received from W. H. Miller $36.50 in full of account." State the method of recording this transaction.

4. "June 4. Gave Moore Bros. a check for $125.60 in full of account." State the method of recording this transaction.

5. Cash is proved May 15. The total of the receipts side of the cash book is $2,150.00 and the total of the payments side, $1,360.00. The balance in the bank is $420.00. If the cash records agree with the cash, how much money is on hand in the safe or cash register?

6. Cash was proved July 7. The amount of cash on hand was $165.00 and in the bank $35.00. The total of the receipts side of the cash book was $1,240.00. If the cash proved, how much was the total of the payments side?

7. Cash was proved December 9. The cash on hand was $122.50. The total of the cash receipts journal was $2,480.00 and the cash payments journal, $1,620.00. If cash proved, what was the bank balance?

8. If you were keeping books for a local business firm and at the end of the day, November 16, the difference between the cash receipts journal and the cash payments journal was $2.00 less than the cash on hand, what would you do about it?

9. November 25. A charge customer called and stated that he had paid you $2.00 on account but he had not received credit for it, which accounts for the error of November 16. What entry would be required to adjust the account because of this error?

Exercise 56, Posting from the Special Journals

(1) The cash book on pages 132 and 133 contains a record of the cash transactions completed by E. B. Tate during the month of May. It is desired to show this same information in account form. Post from these illustrations, allowing five lines for each account, and take a Trial Balance.

(2) The purchases journal on page 116 and the sales journal on page 120 contain a record of the purchases and sales made by E. B. Tate during the same month. It is desired to record these in the same ledger as the one in which the cash transactions are recorded. Post to the same accounts resulting from completing the above instructions and take a Trial Balance.

(3) Compare the accounts in this ledger with the accounts in the ledger on pages 81 and 82. Ascertain the reason for the discrepancy.

Exercise 57, Cash Book

January 1, H. H. Goodman, a retail grocer had on hand the following assets: cash, $618.50; merchandise inventory, $1,151.40; Central Hotel owed him, $155.10; he owed Brown Bros. $485.45. During January he completed the following cash transactions:

4. Paid January rent, $60.00.
5. Paid $192.00 for a cash purchase of merchandise.
6. Received $30.00 for sundry cash sales.
 Paid Brown Bros. $75.50 in full of purchase of December 7.
9. Received from Central Hotel $40.00 on account.
13. Received $40.00 for sundry cash sales.
17. Paid Brown Bros. $134.95 in full for purchase of December 18.
18. Received from Central Hotel $35.00 on account.
20. Received $50.00 for sundry cash sales.
24. Received from Central Hotel $30.10 in full for sale of December 27.
27. Received $42.50 for sundry cash sales.
29. Received $50.00 from Central Hotel in full of account.
30. Paid Brown Bros. $275.00 in full of account.
31. Paid bookkeeper's salary, $125.00.

Instructions. (1) Record the assets, liabilities and proprietorship January 1 in the journal (page 48) and the cash transactions for the first thirteen days in the cash book. Prove cash, balance $401.00, and post; allow six lines for Central Hotel and Sales accounts and five lines for each of the other account.

(2) Record the transactions, beginning with the 17th, in the same cash book. Prove cash, balance $73.65, and post to the same ledger.

(3) Rule the cash book. Post the totals to the Cash account and prove the posting by a Trial Balance.

CHAPTER XII

THE GENERAL JOURNAL

When special journals are provided for purchases, sales, and cash, it is necessary to provide another journal in which to record those transactions of a general nature which cannot be recorded in these special journals. The following discussion relates to the method of recording some of those transactions which cannot be classified and recorded in a special journal.

The General Journal. Those transactions which cannot be recorded in special journals are recorded in the journal. To avoid confusion when referring to journals, it is customary to describe the journal as the *general journal.* The ruling is usually the same as that illustrated on page 29 unless the nature of the transactions requires additional columns in order to record the facts in the most efficient manner.

Posting from the General Journal. Each debit amount is posted to the debit side of the account written on the same line in the journal, and each credit amount, to the credit side of the account written on the same line in the journal. The date and page of the general journal are entered in the appropriate columns of the ledger; the letter "J" is written before the page number to indicate the book of original entry from which the amount was posted. When the posting of a debit or credit item has been completed, the ledger page number is written in the folio column of the general journal.

The entries in the general journal may be classified as (1) opening entries, (2) current entries, (3) correcting entries, (4) adjusting entries, and (5) closing entries.

Opening Entries. The purpose of the opening entry is to record on the ledger the assets and proprietorship or the assets, liabilities and proprietorship at the beginning of business or a fiscal period. The opening entry is made in the cash book when cash is the only asset invested and there are no liabilities. If there are assets other than cash invested in the business, the opening entry is made in the general journal and cash book.

The Balance Sheet is used as a basis for making the opening entry in the general journal. When an opening entry is made in the general journal, it is necessary to record the assets, liabilities, and proprietorship shown on the Balance Sheet. This is effected through recording as a debit to the appropriate account each asset, as a credit to the appropriate accounts each liability, and as a credit to the Capital account the proprietorship on the Balance Sheet. When the journal entry is posted, the assets, liabilities and proprietorship will be recorded on the ledger in accounts with appropriate titles.

At the beginning of the fiscal period, July 1, A. W. Ivy wishes to have a new ledger opened for recording the transactions during the next fiscal period. The Balance Sheet in the illustration at the left shows his assets; liabilities and proprietorship at the close of the fiscal period, June 30.

A. W. IVY
BALANCE SHEET, June 30, 19

Assets:			Liabilities:		
Cash	1879	60	Accts. Payable		
Accts. Rec.			Jones Bros.	421	50
A. B. Lowe	44	25	B. L. Meis	379	44
R. C. Deam	127	65			
G. B. Lewis	55	90	Total Liabilities	800	94
Mdse. Inv.	2751	55	Proprietorship:		
			A. W. Ivy, Cap.	4058	01
Total Assets	4858	95	Total Liab. & Cap.	4858	95

The illustration at the right shows the entry in the general journal which, when posted, will produce a new ledger with the proper account balances. Each asset account is debited for the amount of the asset stated on the Balance Sheet, each liability account is credited for the amount of the liability stated on the Balance Sheet, and the Capital account is credited for the present capital. When this entry is posted, the account balances in the ledger will show the assets, liabilities and proprietorship stated on the Balance Sheet.

July 1, 19

Cash	1879	60		
A. B. Lowe	44	25		
R. C. Deam	127	65		
G. B. Lewis	55	90		
Merchandise Inventory	2751	55		
Jones Bros.			421	50
B. L. Meis			379	44
A. W. Ivy, Capital			4058	01
To record the Balance Sheet of June 30.				

The entry to record the cash in the cash book is:

CASH

19					Receipts	
July	1	√	Balance	In City Bank	1879	60

The check mark in the folio column in the illustration above shows that the amount is not to be posted to the credit of any account; the amount is entered in the second money column of the cash book so it will not be posted as a debit to Cash at the end of the month since only the entries in the first column are posted. This entry, therefore, has no effect on the ledger, but is simply for the purpose of making the cash book agree with the ledger account.

Current Entries. There are various current transactions which by their nature can not be recorded in the special journals. For example, (a) the return of merchandise by a charge customer, (b) the return of merchandise to a creditor, (c) the receipt of a note from a charge customer, and (d) the issue of a note to a creditor. These transactions show the need for the general journal

as a means of recording current transactions which can not be recorded in special journals.

July 1. Received from C. A. Dodson, a charge customer, a 30-day note for $118.10 in full of account.

The entry in the illustration at the right shows the method of recording this transaction in the general journal.

July 1, 19

Notes Receivable	118 10		
C. A. Dodson		118	10
Received 30-day note in full of account.			

Correcting Entries. When an error is the result of incorrect posting, the correction is made by drawing a line through the amounts posted incorrectly and by completing the posting correctly. When the wrong account title is stated in the book of original entry and the error is not discovered until after the entry is posted the correction will require an entry in the general journal. If the error is discovered before posting, lines may be drawn through the incorrect entry, and the correct entry with complete explanation, made below. Erasures or changes in a book of original entry are not considered desirable since such changes may indicate that someone is altering the books for the purpose of defrauding the owner.

July 31. Received from C. A. Dodson check for $118.10 for note due today.

Through error the bookkeeper recorded this transaction in the cash book as follows:

				CASH	Receipts
19 July	31		C. A. Dodson	In full of account	118 10

When this entry is posted, the account with C. A. Dodson will be credited for $118.10 and the face of the note, $118.10, will remain in the Notes Receivable account. The entry in the general journal required to correct this error is shown in the illustration at the left. When this journal entry is posted, the debit to the account with C. A. Dodson will offset the credit in his account because of the error in the cash book entry. The credit to the Notes Receivable account will cancel the debit to this account which should have been canceled through the entry of July 31.

August 2, 19

C. A. Dodson	118 10		
Notes Receivable		118	10
To correct error in cash book entry July 31			

Adjusting Entries. The entries required at the close of the fiscal period to record the cost of sales, expenses because of supplies or services consumed, and income which may not have been recorded are referred to as *adjusting entries.* Since adjusting entries are made at the close of the fiscal period and at the time the ledger is closed, they may be included with the closing entries. Adjusting entries are illustrated in the first entry on page 104, and in the entries on pages 142, 145 and 149.

Closing Entries. The entries required at the close of the fiscal period to summarize the income and expenses in the Profit and Loss Summary account and to close the summary account are referred to as *closing entries.* Closing entries are usually made at the same time as adjusting entries, hence the two classes of entries need not be separated.

The distinction between adjusting and closing entries is that the former are those required to record the amounts in the Adjustments columns of the Working Sheet and the latter, those required to record the amounts in the Profit and Loss Statement columns of the Working Sheet. The second, third, fourth and fifth entries in Illustration 16, page 104, show closing entries.

Exercise 58, Special Journals

(ORAL OR WRITTEN)

1. May 1. Issued check No. 37 in payment for rent. (a) In what book of original entry will this transaction be recorded? (b) What will be the title of the account debited if only rent is to be recorded in it? (c) How will the information be stated in this account?
2. What is the position of (a) the cash receipts journal in the cash book? (b) cash payments journal?
3. Total cash receipts, $3,500.00; cash payments, $2,160.00; cash in the bank, $780.00. If cash proved, how much cash is on hand?
4. To what accounts in the ledger are (a) the total purchases for the month posted? (b) the total sales? (c) the total cash receipts? (d) the total cash payments? (e) When are these totals posted?
5. If the cash balance at the beginning of the month is $1,274.54, and through error the amount is entered in the first column and posted to the Cash account with the total receipts at the end of the month, what effect will the error have on the Trial Balance? Why?
6. In what books of original entry are the transactions represented by the following business papers recorded: (a) rent receipt? (b) stub of a receipt? (c) stub of a check? (d) check received? (e) receipt received? (f) sales ticket? (g) purchases invoice? (h) note? (i) note stub?
7. June 1. C. H. Joy began business with the following assets: cash, $2,500.00; merchandise inventory, $1,500.00; equipment, $500.00. State the book of original entry and entry to record this investment.

Exercise 59, Opening Entry

The Balance Sheet below shows the assets, liabilities and proprietorship of A. L. Robb at the beginning of business on the date stated:

A. L. ROBB
BALANCE SHEET, July 1, 19

Assets:			Liabilities:		
Cash	1250	78	Notes Payable	1000	
Notes Receivable	418	50	Accounts Payable:		
Accounts Receivable:			A. L. Ogden	329	50
L. J. Ault	116	50	C. J. Mays	79	25
G. H. Jerome	329	80			
B. D. Bunn	44	50	Total Liabilities	1408	75
Merchandise Inventory	4216	35	Proprietorship:		
			A. L. Robb, Capital	4967	68
Total Assets	6376	43	Total Liabilities and Prop.	6376	43

Instructions. (1) Make the opening entry in the general journal to record in the ledger the facts stated on the Balance Sheet.

(2) Make the entry in the cash book to record the cash balance.

Exercise 60, Entries in the General Journal

(1) September 1. Make the entry to record in a new ledger the facts shown in the Balance Sheet below; enter the cash balance in the cash book. Post the entries; allow four lines for each account. Take a Trial Balance.

W. L. WATTS
BALANCE SHEET, August 31, 19

Assets:			Liabilities:		
Cash	762	55	Accounts Payable:		
Accounts Receivable:			A. L. Mann & Co.	755	42
J. B. Mason	329	50	Joseph C. Mance	329	50
J. B. Macon	256	55			
A. L. David	79	55	Total Liabilities	1084	92
Merchandise Inventory	2947	60	Proprietorship:		
			W. L. Watts, Cap.	3290	83
Total Assets	4375	75	Total Liabilities and Proprietorship	4375	75

(2) September 7. Allowed J. B. Mason credit for $33.50 for merchandise purchased from him. Record this transaction in the general journal.

(3) September 15. Gave A. L. Mann & Co. cash, $255.42, and a note due in 30 days for $500.00 in settlement of his account. Record these transactions in the cash book and general journal.

(4) September 23. J. B. Mason reported that the amount of his account as shown by a monthly statement is $64.50 more than the sales tickets received. Upon investigation it was discovered that this error was due to the fact that a sale for this amount made to J. B. Macon had been debited to the account with J. B. Mason instead of J. B. Macon. Make the correcting entry.

When an error in posting is detected in a subsequent fiscal period, the correction should be made through an entry in the general journal.

CHAPTER XIII

SUPPLIES, INSURANCE AND EQUIPMENT

A merchant must have wrapping paper, twine, and containers for use in the sale of merchandise, and equipment in the store room to display his merchandise. Equipment is also needed in the office to facilitate the clerical work to be done there. A prudent business man will insure his property. The discussion in this chapter relates to the method of recording transactions in which supplies, insurance, and equipment are purchased and the method of recording the expense at the close of the fiscal period because of use of the supplies and equipment and expiration of insurance.

Supplies. Material needed in connection with the sales of merchandise and the operation of the office, which will be consumed within a short period of time, is referred to as *supplies*. Paper, twine, paper bags, and various types of containers will be needed in taking care of the sales of merchandise. Stationery, pencils, tablets, ink, and material of like character will be needed for the efficient operation of the office. The material mentioned may be described as *supplies* or if it is desired to make the title more descriptive, as *office supplies, store supplies, shipping supplies, advertising material*, etc.

Purchase of Supplies for Cash. When cash is paid for supplies purchased, the transaction results in a decrease in the asset cash and an increase in the asset supplies. Since the supplies are not to be sold, the increase in the asset is not recorded in the Purchases account which shows merchandise purchased for resale, but in a separate account with Supplies. To record a cash purchase of supplies, it is necessary to debit the Supplies account and credit the Cash account.

May 3. A. W. Kirk, a retail druggist, paid $20.50 in cash for wrapping paper and cord.

The entry to record this transaction on the payments side of the cash book is:

					Cash Payments
19					
May	3	141	Supplies	Purchased paper and cord	20 50

When this transaction is posted, the Supplies account will be debited for $20.50, and the $20.50 will be included in the total credited to the Cash account.

Purchase of Supplies on Credit. When supplies are purchased on credit the transaction results in an increase in the asset supplies and an increase in the liability accounts payable. A transaction of this nature is recorded in the general journal because if recorded in the purchases journal, it will result in a debit to the Purchases account whereas it should be recorded as a debit to the Supplies account.

May 15. A. W. Kirk purchased 2 gross bottles from Ray & Ray, terms 30 days, $38.75.

The general journal entry to record this transaction is shown in the illustration at the right. The debit to the Supplies account records the increase in the asset supplies and the credit to Ray & Ray records the increase in the liability accounts payable.

May 15, 19

141	Supplies		38 75	
157	Ray & Ray			38 75
	Purchased 2 gross bottles on 30 days' time.			

Consumption of Supplies. The twine, wrapping paper, letterheads, envelopes, and other supplies purchased for use are consumed in the daily operations of the business. The use of each item of supplies could be regarded as a transaction and the increase in expense and decrease in the asset supplies recorded at the time the supplies are used. This plan usually would not be practical because of the clerical work necessary to record the use of each item. For this reason, it is customary at the close of the fiscal period to record in one amount the expense because of the supplies consumed during the period.

Entry to Adjust the Supplies Account. The entry at the close of the fiscal period to record the cost of all the supplies used during the period as an expense is referred to as an entry *to adjust* the Supplies account. This adjusting entry requires a debit to an expense account with an appropriate title (usually Supplies Used) and a credit to the Supplies account.

The amount debited and credited is the difference between the total supplies purchased and the inventory of supplies. The balance of the Supplies Account at the close of the fiscal period shows the total purchases of supplies during the period. An inventory of supplies on hand at the close of the fiscal period ascertained in the same manner as merchandise inventory shows the asset value of the supplies. The difference between the supplies purchased and the supplies on hand is the expense because of supplies used.

The account in the illustration at the right is the result of posting the entries on pages 140 and 141. The balance of this account is $59.25, the net cost of supplies purchased. At the close of the fiscal period, May 31, an inventory of supplies shows the value to be $26.75.

SUPPLIES

19					
May	3	C	140	20 50	
	15	J	141	38 75	
				59 25	

The illustration on page 142 shows the journal entry necessary to adjust the Supplies account so that its balance will show the asset value of the supplies on hand May 31, and the ledger accounts resulting from posting. It will be observed that the difference between the net cost of supplies, $59.25, and

the value of the supplies on hand, $26.75, is recorded as a debit to the Supplies Used account and as a credit to the Supplies account. When this entry is posted, the balance of the Supplies account, $26.75, is the asset value of the supplies on hand. The balance of the Supplies Used account, $32.50, is the expense resulting from the consumption of supplies. The Supplies account is ruled and the balance carried down under date of June 1 to show the asset value at the beginning of the new period. Since this entry adjusts two accounts so that the balance of each will show the correct facts, it is an *adjusting entry*.

May 31, 19

142	Supplies Used							32	50				
142	Supplies											32	50
	To transfer the value of the supplies used.												

SUPPLIES

19							19							
May	3		C	140	20	50	May	31		J	142	32	50	
	15		J	141	38	75		31	Inv.		✓		75	
					59	25						59	25	
June	1	Inv.		✓	26	75								

SUPPLIES USED

19						
May	31		J	142	32	50

SUMMARY OF SUPPLIES ACCOUNTS

The Supplies Account is a record of the increases and decreases in the asset supplies.

This account is *debited* for increases through purchases and *credited* with decreases through supplies consumed.

The *debit* balance at the beginning of each fiscal period is an asset.

The Supplies Used Account is a record of the expense because of supplies consumed in the operations of the business.

This account is *debited* at the close of each fiscal period for the cost of the supplies used during the period. The amount of this debit is the difference between the total supplies purchased and the supplies inventory.

The *debit* balance of the Supplies Used account is an expense and is closed into the Profit and Loss Summary account.

Exercise 61, Purchase and Use of Supplies

(ORAL OR WRITTEN)

1. The debit balance of the Supplies account at the close of the fiscal period is $162.50. The inventory of supplies is $32.50. State the entry or entries necessary to record the expense because of supplies used.

2. The check removed from the stub in the illustration at the right was signed by O. A. Winger, a retail merchant. The purpose of the check is explained on the stub. (a) In what book of original entry will the bookkeeper for Mr. Winger record this transaction? (b) What account is debited? (c) Credited? (d) Why? (e) What effect does this transaction have on the assets? (f) When will the asset supplies become an expense?

No. 729

Date January 27 19 ___

Favor of Jones Paper Co

For Wrapping paper

Accounts _____

Amount of Check $ 9.85

3. The purchases invoice below was rendered to O. A. Winger. (a) In what book of original entry will it be recorded? (b) Why? (c) What account is debited? (d) Credited? (e) What effect does the transaction have on the assets?

WOODS PAPER & TWINE CO.

Manufacturers of
Paper
Rope and Twine
Also Direct Mill Agents

Private Branch Exchange
Main 775

1521 Broadway

SOLD TO O. A. Winger,
1046 Main St.,
City

Date May 14, 19
Terms Net 30 days
Shipped Via Truck

5	pkgs. 24 x 36 Brown Service Kraft	480 lbs.	.06¼	30.00
5	reels 3 ply extra fine Java Twine	265 lbs.	.19	50.35
10	rolls 1½" Gummed Tape		.28	2.80
				83.15

4. The balance of the Supplies account at the close of the fiscal period was $425.50 and the supplies inventory, $125.25. (a) State the entry necessary to record the expense because of supplies used during the period. (b) State the entry necessary to transfer the expense account to the Profit and Loss Summary account. (c) What is the balance of the Supplies account at the beginning of the next fiscal period? (d) Is it an asset or a liability?

5. The account at the right contains a record of the supplies purchased by O. A. Winger during the month of May. (a) If none of the supplies have been used, what does the balance represent? (b) If all the supplies have been used, what does the balance represent? (c) If the value of the supplies on hand is $34.50, what does the balance represent? (d) What entry, if any, would be required to adjust the account under each condition mentioned in questions (a), (b) and (c).

SUPPLIES

19				19			
May	3	22	50	May	17	4	—
	7	36	75				
	14	83	15				
	28	27	50				

6. If the business is operated on a calendar year basis, (a) on what date will the general journal entry illustrated at the left be recorded? (b) What will be the explanation? (c) If the value of the supplies inventory is $29.80, what is the total purchases of supplies for the year?

Supplies Used	105 50		
Supplies		105 50	

INSURANCE

Insurance. The protection against loss on assets from fire or other causes is referred to as *insurance*. This protection is provided by insurance companies. The amount paid an insurance company for insurance is referred to as the *premium*. The payment of this premium provides the desired insurance for the contract period, usually twelve months. The contract executed by an insurance company in which it agrees to provide protection against loss is known as an *insurance policy*.

Prepaid Insurance. The premium is paid to the insurance company at the time the policy is issued. When cash is paid for insurance, the transaction results in a decrease in the asset cash and an increase in an asset known as *prepaid insurance*. This prepaid insurance is an asset at the time the premium is paid because it is protection for the ensuing twelve months. The asset is of the same nature as supplies, that is, it will eventually be consumed, but it is an asset at the time of purchase.

May 2. A. W. Kirk, the retail druggist referred to in connection with previous transactions, paid $60.00 in cash for the premium on a $5,000.00 one-year policy issued May 1.

The entry to record this transaction in the cash book is:

					Cash Payments
19 May	2	145	Prepaid Insurance	Premium on $5000.00 Insurance	60 —

When this transaction is posted, the Prepaid Insurance account will be debited for $60.00; the credit to the Cash account will be included with the total posted at the end of the month.

The purpose in buying the insurance is to afford protection for a definite time, usually one year, hence the asset value of the prepaid insurance will decrease day by day. The amount of this daily decrease could be recorded at the close of the day. It is not, however, customary to do this because of the clerical work required. The usual plan is to record in one amount at the close of the fiscal period the expense because of the expired insurance.

The amount of the expense because of expired insurance is determined at the close of each fiscal period from the policy. If A. W. Kirk operates on a

monthly fiscal period, one-twelfth of the premium paid for the policy of May 2 will have expired at the close of the monthly fiscal period May 31. The asset value of the prepaid insurance at the close of May is $55.00, hence the expense because of expired insurance is $5.00, the difference between the full premium, $60.00, and the present asset value of the premium, $55.00.

The journal entry in the illustration at the right records the expired insurance. The debit to the Expired Insurance account records the increase in the expense and the credit to the Prepaid Insurance account records the decrease in the asset prepaid insurance. This is an adjusting entry.

	31			
145	Expired Insurance		5 —	
145	Prepaid Insurance			5 —
	To record the expired insurance.			

When the cash book entry on page 144 and the journal entry above have been posted, the Prepaid Insurance and Expired Insurance accounts will appear as in the illustration at the left. The Prepaid Insurance account is ruled and the balance carried down under date of June 1; the debit balance, $55.00, shows the asset value of the prepaid insurance. The debit balance of the Expired Insurance account, $5.00, shows the expense because of expired insurance.

PREPAID INSURANCE

19					19				
May	2	C 144	60 —		May	31	J 145	5 —	
			60 —					60 —	
June	1	✓	55 —						

EXPIRED INSURANCE

19				
May	31	J 145	5 —	

SUMMARY OF INSURANCE ACCOUNTS

The Prepaid Insurance Account is a record of the increases and decreases in the asset prepaid insurance.

This account is *debited* for the increases because of premiums paid and *credited* for decreases because of insurance expired.

The *debit* balance at the beginning of each fiscal period is an asset.

The Expired Insurance Account is a record of the expense because of expired insurance.

This account is *debited* at the close of the fiscal period for the amount of the insurance expired during the period. The amount of this debit is the difference between the total premiums paid and the value of the unexpired insurance.

The *debit* balance of the Expired Insurance account is an expense and is closed into the Profit and Loss Summary account.

Exercise 62, Purchase and Expiration of Insurance

(ORAL OR WRITTEN)

1. The check removed from the stub in the illustration at the right was signed by C. J. Otis, a retail merchant. The purpose of the check is explained on the stub. (a) In what book of original entry will the bookkeeper record this transaction? (b) What account is debited? (c) Credited? (d) Why? (e) What effect does the transaction have on the assets?

No. 883

Date July 1 19—

Favor of Western Insurance Co.

For Premium on insurance policy

Accounts

Amount of Check $100.00

2. The account below contains a record of the insurance paid by C. J. Otis during the fiscal year beginning July 1. (a) What is the asset value of the insurance (stated in account) at the close of the fiscal year, June 30? (b) What entry will be required to adjust the Prepaid Insurance account? (c) In what book of original entry will this be recorded? (d) Which of the two accounts affected will be open after the ledger is closed?

PREPAID INSURANCE

1928												
July	1	1 year		88	65							
Aug.	1	1 year		62	50							
Dec.	1	1 year		55	—							
1929												
May	1	1 year		76	25							

3. At the close of the calendar year, the two accounts in the illustration at the right are in the ledger of Robert Cummins, a retail merchant. (a) Which of these accounts may be adjusted without additional information? (b) Which of these accounts may not need adjustment? (c) Why? (d) When will each policy recorded in the Prepaid Insurance account expire?

SUPPLIES

19							19					
Jan.	2	Inven.		68	50		Sept.	2			3	50
Mar.	15			72	40							
Aug.	29			104	35							

PREPAID INSURANCE

19												
Jan.	2	1 year		240	—							
Aug.	1	1 year		180	—							

4. C. J. Owens, a retail merchant, had his merchandise insured for $12,000.00. The insurance rate was $19.75 per thousand (a) What was the amount of the check required to pay the premium? (b) In what book of original entry was the check recorded? (c) What account was debited?

5. The account at the left appears in the ledger of Robert Joyce. A. C. Potter, the charge customer, is an insurance agent. April 1, Robert Joyce purchased from A. C. Potter a $5,000.00 insurance policy on merchandise at $18.65 per thousand. A. C. Potter is to be credited with the amount of the premium. (a) In what book will this transaction be recorded? (b) What account is debited? (c) Credited? (d) What effect will this transaction have on the account with A. C. Potter?

A. C. POTTER

19													
Mar.	6		S67	41	25								
	16		S83	15	80								
	28		S99	32	50								
				89	55								

EQUIPMENT

Equipment. Assets other than supplies may be needed for use in the operation of the business. Typewriters, desks, adding machines, and various other types of office appliances may be required in the office. Display cases, counters, tables, and scales may be required in the store. These assets differ from supplies in that they will not be consumed within a short time.

Containers may be consumed through use within a few days after they are purchased but a display case may be in use for several years. Office stationery such as letterheads and envelopes may be consumed through use within a few weeks or months after they are purchased, but a typewriter or desk should be serviceable for several years. The assets which will not be consumed in a short time are usually described as *equipment*, or if a more descriptive title is desired, *office equipment, storeroom equipment, or shipping room equipment.*

The Purchase of Equipment. When cash is paid for equipment purchased, the transaction results in a decrease in the asset cash and an increase in the asset equipment. Since the equipment is not purchased to be sold but to be used in the business, the increase in the asset is not recorded in the Purchases account but in a separate account with equipment. A cash purchase of equipment is recorded on the payments side of the cash book as a debit to the Equipment account.

May 1. A. W. Kirk, the retail druggist referred to in previous illustrations, paid $150.00 cash for a display case.

The entry to record this transaction in the cash book is:

CASH

					Payments
19 May	1	149	Equipment	Purchased display case	150 —

When this entry is posted, the Equipment account is debited for $150.00. At the end of the month when the total cash payments is posted, the $150.00 will be included with the sum recorded on the credit side of the Cash account.

When equipment is purchased on credit, the transaction results in an increase in the asset equipment and an increase in the liability accounts payable, or if a note is given, an increase in the liability notes payable. A transaction of this nature is recorded in the general journal because if recorded in the purchases journal, it would result in a debit to the Purchases account.

May 2. A. W. Kirk purchased from Davis Bros. one soda fountain, terms, 30 days, $1,200.00.

The entry in the general journal to record this transaction is shown in the illustration at the right. The account with Equipment is debited to record the increase in the asset equipment and the account with Davis Bros. credited to record the increase in the liability accounts payable.

May 2, 19

149	Equipment	1200 —		
149	Davis Bros.			1200 —
	Bought 1 soda fountain on 30 days' time.			

Depreciation. The decrease in value of the equipment through its use is referred to as *depreciation*. This decrease in the asset results in a corresponding increase in the expenses. The exact amount of this expense can not be known until the equipment is sold, exchanged or discarded.

Since it is desired to record all the expense for each fiscal period so that the owner may know his profit for the period, it is customary to estimate the depreciation on equipment applicable to the period. The amount of this estimated depreciation is recorded at the close of the fiscal period as one of the expenses for the period. The depreciation for each day could be estimated and recorded but this would not be practical, hence the record of the expense is made at the close of the fiscal period in one amount.

Method of Recording Depreciation. At the close of each fiscal period, the amount of depreciation is estimated and recorded as an expense. Depreciation Expense account may be debited for the estimated expense, and Equipment account, credited. The balance in the Equipment account would then show its estimated value at the close of the period.

It is customary to have the Equipment account show the cost value at all times because the owner may have occasion to refer to the cost value when purchasing new equipment, securing insurance, or completing some similar transaction. To provide this information, the credit for depreciation is not to the Equipment account, but to an account with the title *Depreciation Reserve*. When it is desired to ascertain the present estimated value of the equipment, the total reserve recorded in the Depreciation Reserve account is subtracted from the total cost recorded in the Equipment account.

The word "depreciation" used in connection with the title of an account indicates that the amount recorded in the account is based on an estimate.

Thus, an account with the title Depreciation Expense indicates that this is the estimated expense incident to the decrease in the value of the equipment; an account with the title Depreciation Reserve indicates that the credit balance is a deduction from the cost of the equipment and that the amount is estimated.

May 31, the close of the monthly fiscal period, A. W. Kirk estimated the depreciation on the equipment to be $11.25. This estimate is based on ten years use.

The cost value of the equipment, $1,350.00, with an expected use of ten years and no scrap value results in an estimated depreciation of 10% each year or $135.00. The depreciation for a month is one-twelfth of $135.00 or $11.25.

The entry in the general journal to record the expense and the decrease in the value of the equipment incident to the ownership of the equipment is shown in the illustration at the left. The decrease in proprietorship (expense) is recorded as a debit to the Depreciation Expense account; the decrease in the value of the property is recorded as a credit to the Depreciation Reserve account. This is an adjusting entry.

		May 31, 19			
149	Depreciation Expense		11 25		
149	Depreciation Reserve ..			11 25	
	To record the estimated depreciation.				

The results of posting the cash book entry on page 147 and the journal entries on pages 148 and 149 are shown in the illustration at the right. It will be observed that the debit balance of the Equipment account, $1,350.00, is the cost of the equipment and the credit balance of the Depreciation Reserve account, $11.25, is the estimated decrease in value because of depreciation. The difference between the two balances or $1,338.75 is the present or *book* value of the equipment. The book value is an estimated value because the amount of the depreciation is estimated. The equipment

CASH

					19 May	31	C 147	150 —

EQUIPMENT

19 May	1	C	147	150 —				
	2	J	148	1200 —				
				1350 —				

DEPRECIATION RESERVE

					19 May	31	J 149	11 25

DAVIS BROS.

					19 May	2	J 148	1200 —

DEPRECIATION EXPENSE

19 May	31	J	149	11 25				

may be worth more or less than this amount; its real value can be ascertained only when it is sold.

SUMMARY OF EQUIPMENT ACCOUNTS

The Equipment Account is a record of the increases and decreases in the asset equipment.

This account is *debited* with the increases at cost price through purchases and *credited* with decreases at cost price through sale or exchange.

The *debit* balance shows the cost of the equipment owned, but does not show the real value of the asset after the first fiscal period; the asset value is the difference between the debit balance and the credit balance of the Depreciation Reserve account.

The Depreciation Reserve Account is a valuation account showing a record of the estimated decrease in the value of equipment because of depreciation.

This account is *credited* at the close of each fiscal period for the estimated depreciation.

The *credit* balance shows the amount to be deducted from the debit balance of the Equipment account to show book value of the equipment. Both the cost price and book value are shown on the Balance Sheet through deducting the balance of the Depreciation Reserve account from the balance of the Equipment account.

The Depreciation Expense Account is a record of the expense because of the estimated decrease in the value of the equipment.

This account is *debited* at the close of each fiscal period for the increase in expense because of estimated depreciation.

The *debit* balance of the Depreciation Expense account is an expense and is closed into the Profit and Loss Summary account. The Depreciation Expense account is in balance during the fiscal period.

Expenses. The decrease in assets and proprietorship because of services necessary to operate the business is referred to as expense. Descriptive titles may be used to designate various types of expenses such as Rent, Salaries, Advertising, etc.

Expenses paid during the fiscal period are recorded as a decrease in the asset cash and an increase in the expenses. The appropriate expense account is debited and the Cash account credited.

There are several different expenses which occur daily but are not recorded until the close of the fiscal period. These include

Supplies Used
Insurance Expired
Depreciation on Equipment

The expense because of supplies used and expired insurance is determined and recorded at the close of the fiscal period. Supplies used are re-

corded as a debit to the Supplies Used account and expired insurance as a debit to the Expired Insurance account.

The exact depreciation on equipment cannot be determined until the equipment is sold, but it is estimated at the close of each fiscal period. This estimated depreciation is recorded as a debit to the Depreciation Expense account and a credit to the Depreciation Reserve account.

Exercise 63, Purchase and Use of Equipment

(ORAL OR WRITTEN)

1. "Gave the Harman Desk Company a check for $90.00 in payment for an office desk." (a) How will this transaction be recorded? (b) What effect does it have on the assets?

2. (a) In what book of original entry should the information recorded in the two accounts at the right be recorded? (b) What should be the explanation? (c) What effect does this transaction have on the assets?

EQUIPMENT

19 Mar.	10			35	—				

OFFICE FURNITURE CO.

						19 Mar.	10	35	—

3. "October 1. Purchased from the Moore Safe Company one Hartford safe for $200.00. Paid cash, $100.00 and gave note for $100.00 due in sixty days with interest." (a) In what books of original entry will this transaction be recorded? (b) How? (c) What effect does the transaction have on the equation, "Assets = Liabilities + Proprietorship?"

4. "January 2. C. O. Robb, a retail druggist, paid $100.00 in cash for a typewriter." The agreement was that it could be used for three years and traded in for a new typewriter at a value of $25.00. (a) How much will this typewriter depreciate each year? (b) What entry will be made at the close of each year to record the depreciation? (c) What will be the book value of the typewriter December 31 of the first year, second year, and third year?

5. "May 1. Miss Mabel Cohen, who operates the Candy Shop, paid cash, $200.00, for equipment." If she operates on a monthly fiscal period basis and estimates that this equipment will be of service one hundred months, what entry will be required May 31 to record the depreciation on equipment?

6. July 1. W. T. Risinger, a retail merchant, paid $1200.00 for a delivery truck which he estimates will be of service for fifty months, with an exchange value of $200.00 at the end of that time. The truck was destroyed by fire thirty-two months after date of purchase. If the truck was fully insured and he collects book value from the insurance company, what amount of cash will he receive?

Exercise 64, Supplies, Insurance and Equipment

March 1, L. B. Cloud invested $5,000.00 in cash in a retail clothing business. During the year ending February 28 next, he purchased supplies, insurance, and equipment as follows:

Mar. 1. Gave the Office Equipment Company a check for $1,250.00 in payment for equipment.
3. Bought supplies from O. R. Dick & Company on credit, $39.62.
5. Gave the Acme Manufacturing Company a check for $65.50 in payment for containers purchased for use in packing goods sold.
6. Returned to O. R. Dick & Company, a part of the supplies purchased on the 3d, $3.75.
10. Gave M. Franklin a check for $120.00 in payment for premium on insurance policy for one year, issued March 1.

April 7. Purchased supplies from W. H. Lord on credit, $155.50.

June 15. Gave L. B. Andrews a check for $72.65 in payment for supplies purchased on this date.

July 31. Bought supplies from O. R. Dick & Company on credit, $92.55.

Sept. 1. Gave the Office Equipment Company a check for $250.00 in payment for additional equipment bought on this date.

Nov. 1. Gave M. Franklin a check for $81.60 in payment for premium on insurance policy for one year, issued today.

Dec. 5. Bought supplies from the Acme Manufacturing Co. on credit, $120.00.

Jan. 7. Bought supplies from Davis Bros. on credit, $44.50.

Feb. 1. Received $6.50 in cash for sale of containers purchased for use in packing goods sold.

Feb. 28. Inventory of supplies, $67.45.
Depreciation on equipment, 10% per year.

Instructions. (1) Record the transactions in the required journals and post; allow twelve lines for the Supplies account and seven lines for each of the other accounts.

(2) Record under date of February 28 the expense because of supplies used, expired insurance and estimated depreciation for the fiscal year. Post and take a Trial Balance.

The information given under date of February 28 and in the Prepaid Insurance account will be used as a basis for the adjusting entries.

Exercise 65, Prepaid and Expired Insurance

Albert Snow, a retail merchant, paid cash for yearly insurance premiums as follows:

July 1	$127.20	February 1	$ 36.60
August 1	49.80	April 1	108.60
November 1	66.00	June 1	24.00

Instructions. Show the Prepaid Insurance and Expired Insurance accounts as they would appear on the ledger at the close of the fiscal periods September 30, December 31, March 31, and June 30.

CHAPTER XIV

A MODEL SET

The books of original entry and ledger both containing a record of all the transactions completed by a business are usually referred to as a *set of books*. The illustrations in this chapter show the set of books belonging to H. W. Good, a retail merchant, during the monthly fiscal period of October. These illustrations provide a review of the preceding chapters and include a practical presentation of the bookkeeping process applied to the keeping of a set of books.

Bookkeeping. The work of the bookkeeper, that is, the one who *keeps books*, may be briefly described as follows:

(1) Recording the opening entry at the beginning of the fiscal period when a new business is organized or it is desired to open a new ledger.

(2) Recording all subsequent business transactions to provide the daily and periodic information needed by the owner of the business.

(3) Preparation of the monthly Trial Balance to prove the equality of debits and credits in the ledger.

(4) Preparation of the Working Sheet, Balance Sheet and the Profit and Loss Statement at the close of each fiscal period.

(5) Recording on the ledger, through the general journal, the adjusting and closing entries at the close of each fiscal period and preparing a Post-closing Trial Balance.

The daily information needed includes (a) the cash balance, (b) cash proof, (c) the amount owed by each customer, (d) the amount owed to each creditor, (e) the purchases, (f) the sales, and (g) the expenses.

The periodic information needed includes all the facts necessary to ascertain the present proprietorship and net profit at the close of the fiscal period.

When the transactions are recorded so as to provide daily information, proprietorship and net profit can be ascertained from the account balances in the ledger, after the accounts affected by the inventories and depreciation have been adjusted.

OPENING ENTRIES

Monday morning, October 1, the assets, liabilities, and proprietorship of H. W. Good, a retail merchant, stated in equation form are:

ASSETS $1848.33 = LIABILITIES $326.68 + PROPRIETORSHIP $1521.65

The Balance Sheet at the top of page 154 shows the nature and value of each asset, the nature and amount of each liability, and the proprietorship.

H. W. Good
Balance Sheet, September 30, 19..

Assets:			Liabilities:		
Cash:			Notes Payable	160	—
In the Bank	991.68		Accounts Payable:		
On Hand	25.00	1016 68	J. A. Whitney & Co.	108.66	
Notes Receivable		100	Proctor & Gamble	58.02	166 68
Accounts Receivable:			Total Liabilities		326 68
A. R. Jennings	18.27				
Central Hotel	69.18	87 45	Proprietorship:		
			H. W. Good, Capital		1521 65
Merchandise Inventory		521 65			
Supplies		62 55			
Prepaid Insurance		60			
Total Assets		1848 33	Total Liabilities and Capital		1848 33

NARRATIVE OF TRANSACTIONS

During the month of October, H. W. Good completed the following transactions:

(a) 12 purchases of merchandise on credit.

(b) 17 sales of merchandise on credit and 3 sales for cash.

(c) 1 cash investment, 12 cash collections from charge customers and 1 cash collection for a note.

(d) 7 cash payments to creditors, 7 cash payments for expenses, 2 cash payments for supplies, 2 cash withdrawals by H. W. Good and 1 cash payment for a note.

(e) 1 purchase of equipment on credit, 1 note issued to a creditor, 1 note received from a charge customer, and 1 return of merchandise by a charge customer.

The opening entry and transactions outlined above are recorded in the journals, pages 155 to 159. The ledger, pages 161 to 166, contains the same information as that recorded in the journals. The entries were posted daily and the totals were posted at the end of the month.

The General Journal contains (a) the opening entry (the numbers in parentheses refer to the pages of the accounts in the old ledger); (b) three current entries to record transactions which could not be recorded in a special journal; (c) an entry to record the expense because of supplies consumed, insurance expired and estimated depreciation; (d) an entry to transfer the inventory, October 1, to the Purchases account so that this account will contain a record of the total purchases; (e) an entry to record the cost of sales through transferring the asset value of the merchandise in stock, October 31, from the Purchases account to the Merchandise Inventory account; (f) three entries to summarize the income, cost and expenses into the Profit and Loss Summary account; and (g) an entry to close the Profit and Loss Summary account.

October 1, 19 — PAGE 17

1	Cash (5)			1016	68		
2	Notes Receivable (9)			100	—		
7	A. R. Jennings, 115 Main St., City (10)			18	27		
8	Central Hotel, 216 Fairview Ave., City (11)			69	18		
27	Merchandise Inventory (14)			521	65		
28	Supplies (18)			62	55		
29	Prepaid Insurance (19)			60	—		
33	Notes Payable (25)					160	—
34	J. A. Whitney & Co., 212 Oliver St., City (27)					108	66
35	Proctor & Gamble, Third and Broadway, City (28)					58	02
45	N. W. Good, Capital (40)					1521	65
	To record the assets, liabilities and proprietorship shown on Balance Sheet of September 30						
	2						
30	Equipment			475	—		
37	Winters Supply Co., 335 Broadway, City					475	—
	Purchased equipment per invoice of this date, 10 days.						
	13						
37	Winters Supply Co.			275	—		
33	Notes Payable					275	—
	Gave 30-day note to apply on purchase of October 2.						
	27						
2	Notes Receivable			100	—		
51	Sales			1	10		
13	Park Hotel					101	10
	Rec'd 30-day note, $100, and returned goods, $1.10, in full of account to date						
	31						
60	Supplies Used			42	37		
61	Expired Insurance			10	—		
62	Depreciation Expense			9	50		
28	Supplies					42	37
29	Prepaid Insurance					10	—
31	Depreciation Reserve					9	50
	To adjust the Supplies and Prepaid Insurance accounts and to record 2% monthly depreciation on equipment						

Illustration 24, General Journal, Page 17

PAGE 18

October 31, 19

52	Purchases		521	65	
27	Merchandise Inventory				521 65
	To transfer Merchandise Inventory, September 30 to Purchases account.				
	31				
27	Merchandise Inventory		1094	84	
52	Purchases				1094 84
	To record Merchandise Inventory, October 31.				
	31				
51	Sales		1524	66	
63	Profit and Loss Summary				1524 66
	To close the Sales account.				
	31				
63	Profit and Loss Summary		1073	90	
52	Purchases				1073 90
	To close the Purchases account				
	31				
63	Profit and Loss Summary		223	87	
57	Rent Expense				75 —
58	Salary Expense				75 —
59	Miscellaneous Expense				12 —
60	Supplies Used				42 37
61	Expired Insurance				10 —
62	Depreciation Expense				9 50
	To close the expense accounts.				
	31				
63	Profit and Loss Summary		226	89	
45	H. W. Good, Drawing				100 —
46	H. W. Good, Capital				126 89
	To close the Profit and Loss Summary account.				

Illustration 24, General Journal, Page 18

The Purchases Journal below contains a record of the purchases on credit made by H. W. Good during the month of October. The information for each entry is an invoice similar to the form illustrated on pages 173.

PURCHASES JOURNAL — PAGE 12

October, 19

DATE	L. F.	ACCOUNT CREDITED	ADDRESS	TERMS	INV. DATE	AMOUNT
2	38	J. W. Allen & Co.	32 Center St, City	½ Cash ½ 30 days	10/1	179 30
3	36	Franklin Sugar Co.	1818 Oak St, City	15 days	10/2	136 96
5	38	J. W. Allen & Co.		½ Cash ½ 30 days	10/4	194 —
10	38	J. W. Allen & Co.		20 days	10/9	230 —
15	39	L. B. Dick & Co.	Springfield		10/13	81 78
15	38	J. W. Allen & Co.			10/13	48 —
17	40	Lake View Creamery	76 Bank St. City	20 days	10/14	30 —
22	40	Lake View Creamery		20 days	10/20	48 —
23	38	J. W. Allen & Co.		30 days	10/22	199 10
26	38	J. W. Allen & Co.		30 days	10/25	216 50
29	36	Franklin Sugar Co.		10 days	10/28	202 40
30	39	L. B. Dick & Co.		15 days	10/29	81 05
						1647 09
31	52	Purchases Dr.	Total Purchases			1647 09

Illustration 25, Purchases Journal, Page 12

The Sales Journal below contains a record of the charge sales made by H. W. Good during the month of October. The information for each entry is a copy of the sales invoice similar to the form illustrated on page 174.

SALES JOURNAL — PAGE 13

October, 19

DATE	L. F.	ACCOUNT DEBITED	ADDRESS	TERMS	SALE NO.	AMOUNT
5	7	A. K. Jennings		10 days	101	16 25
8	9	Park Hotel	165 Willis St. City	Weekly	102	59 35
11	7	A. K. Jennings		30 days	103	56 25
13	10	M. A. Johnson	9 Jay St, Kingston	10 days	104	54 40
16	9	Park Hotel			105	51 40
19	11	James C. Wilson	416 Broad St, City	10 days	106	44 30
20	9	Park Hotel			107	137 85
23	11	James C. Wilson		30 days	108	132 55
23	12	C. L. Lord	R. F. D. No. 11, City	10 days	109	26 05
24	9	Park Hotel			110	142 50
26	13	Park Hotel			111	82 05
26	10	M. A. Johnson			112	44 25
27	7	A. K. Jennings		10 days	113	38 50
		Carried Forward				885 70

Illustration 26, Sales Journal, Page 13

PAGE 14 SALES JOURNAL

October, 19

DATE	L. F.	ACCOUNT DEBITED	ADDRESS	TERMS	SALE NO.	AMOUNT
		Brought Forward				88570
27	13	Park Hotel			114	8025
29	11	James C. Wilson		10 days	115	3756
29	13	Park Hotel			116	9290
29	7	A. R. Jennings		30 days	117	4250
31	51	Sales Cr.	Total Sales			113891

Illustration 26, Sales Journal, Page 14

The Cash Book on this and the opposite page contains a record of the cash receipts and the cash payments during the month of October. The infor-

PAGE 20 CASH

RECEIPTS

DATE	L. F.	ACCOUNT CREDITED	EXPLANATION	AMOUNT	TOTALS
19 Oct. 1	✓	Balance			101668
2	7	A. R. Jennings	In full of account	1827	
6	8	Central Hotel	On account	50 —	
6	51	Sales	Cash sales 774.64	132 10	
9	7	A. R. Jennings	To apply on sale of Oct. 5	10 —	
12	9	Park Hotel	On account	3050	
18	7	A. R. Jennings	On account 605.64	25 —	
18	10	M. A. Johnson	To apply on sale of Oct. 14	35 —	
20	51	Sales	Cash sales 367.66	144 50	
22	45	N. W. Good, Capital	Additional investment	500 —	
22	9	Park Hotel	On account	2575	
25	11	James C. Wilson	To apply on sale of Oct. 19	2215	
25	2	Notes Receivable	In full for note due	100 —	
26	7	A. R. Jennings	In full for sale of Oct. 5	625	
27	13	Park Hotel	Balance due Oct. 22 1110.56	1 1 91 25	
31	12	C. L. Lord	In full for sale of Oct. 23	2605	
31	13	Park Hotel	On account	50 —	
31	51	Sales	Cash sales 1024.61	1 1 0 25	
31	1	Cash Dr.	Total Receipts		137707
					239375
Nov. 1	✓	Balance	On hand		102461

Illustration 27, Receipts Side of the Cash Book, Page 20

mation for each entry on the receipts side of the cash book is a receipt stub or check similar in form to the illustrations on pages 77 and 181. The information for each entry on the payments side of the cash book is a receipt or check stub as illustrated on pages 75 and 177.

Cash Proof. Cash was proved, as described on page 131, on October 6, 13, 20, 27, and 31, and the balances written in small figures in Illustration 27. The pencil footings (represented by small figures in the illustration) are not erased when cash has been proved, thus facilitating the next cash proof. The bookkeeper knows that cash proved at the points indicated by small figures, hence it is not necessary to check back of these figures when the cash does not prove at a subsequent time.

Opening a New Ledger. When accounts are opened in a new ledger, it is customary to group and arrange them in the order in which their balances will be reported on the Balance Sheet and Profit and Loss Statement. The

CASH PAGE 21

PAYMENTS

DATE	L. F.	ACCOUNT DEBITED	EXPLANATION	AMOUNT	TOTALS
19 Oct. 1	57	Rent Expense	October rent	75 —	
2	34	J. A. Whitney & Co.	In full of account	108 66	
2	28	Supplies	Wrapping paper	1 85	
3	38	J. W. Allen & Co.	½ of purchase, Oct. 2	89 65	
4	59	Miscellaneous Expense	Telephone service	3 25	
5	46	H. W. Good, Drawing	For personal use	50 —	
6	38	J. W. Allen & Co.	½ of purchase, Oct. 4	97 —	
12	59	Miscellaneous Expense	Cleaning windows	1 50	
13	37	Winters Supply Co.	In full of account	200 —	
13	28	Supplies	Postage stamps	10 —	
15	58	Salary Expense	Clerk's salary	37 50	
17	36	Franklin Sugar Co.	In full of account	136 96	
18	46	H. W. Good, Drawing	For personal use	50 —	
18	33	Notes Payable	Payment of 60-day note	160 —	
19	35	Proctor & Gamble	In full of account	58 02	
25	59	Miscellaneous Expense	Advertisement	2 50	
29	38	J. W. Allen & Co.	In full of purchase, Oct. 9	230 —	
31	59	Miscellaneous Expense	Light and water	4 75	
31	58	Salary Expense	Clerk's salary	37 50	
31	1	Cash Cr.	Total Payments		1369 14
31					2393 75

Illustration 27, Payments Side of the Cash Book, Page 21

accounts in the ledger, pages 161–166, are arranged in the same order as the account balances reported on the Balance Sheet, page 168, and Profit and Loss Statement, page 169.

Ledger Pages. Usually a full page is allowed for each account. In the ledger illustrated it is necessary to group several accounts on each page in the text as indicated by the page number printed on each account.

Partial Payments. Letters are used in personal accounts to enable the bookkeeper to interpret the relation between debit and credit entries without referring to the book of original entry. Thus, an "a" opposite amounts on each side of an account indicates that these amounts are related to each other.

The same letter on each side of an account with a creditor indicates that the debit amount is applicable to the credit amount. The same letter on each side of an account with a customer indicates that the credit amount is applicable to the debit amount.

Errors. The errors corrected in the books of original entry and the accounts are explained in Chapter XVI.

Indexing a Ledger. When a ledger is a bound book or a loose-leaf book with numbered pages, it is advisable to index the accounts. The index below is applicable to the ledger on pages 161–166.

INDEX

A–D
Allen & Co., J. W. ... 38
Cash ... 1
Central Hotel ... 8
Depreciation Expense ... 62
Depreciation Reserve ... 31
Dick & Co., L. B. ... 39

E–H
Equipment ... 30
Expired Insurance ... 61
Franklin Sugar Company ... 36
Good, H. W., Capital ... 45
Good, H. W., Drawing ... 46

I–L
Jennings, A. R. ... 7
Johnson, M. A. ... 10
Lake View Creamery ... 40
Lord, C. L. ... 12

M–N
Merchandise Inventory ... 27
Miscellaneous Expense ... 59
Notes Receivable ... 2
Notes Payable ... 33

O–Q
Park Hotel ... 9, 13
Prepaid Insurance ... 29
Proctor & Gamble ... 35
Profit & Loss Summary ... 63
Purchases ... 52

R–U
Rent Expense ... 57
Salary Expense ... 58
Supplies ... 28
Supplies Used ... 60
Sales ... 51

V–Z
Whitney & Co., J. A. ... 34
Wilson, James C. ... 11
Winters Supply Company ... 37

WORK AT THE CLOSE OF THE FISCAL PERIOD

H. W. Good operates on a monthly fiscal period basis. The Working Sheet, Balance Sheet, Profit and Loss Statement, adjusting entries, and the entries to close the ledger are illustrated on pages 167–170. The ledger, pages 161 to 166, contains the results of posting the opening entry, current entries, adjusting entries and closing entries.

Cash

PAGE 1

19						19				
Oct.	1	Balance (5)	J 17	1016	68	Oct.	31		C 21	1369 14
	31		C 20	1377	07		31	Balance	✓	1024 61
				2393	75					2393 75
Nov.	1	Balance	✓	1024	61					

Notes Receivable

PAGE 2

19						19			
Oct.	1	Balance (9)	J 17	100	—	Oct.	25	C 20	100 —
	27	30 days	J 17	100	—				

A. R. Jennings

115 Main St, City

PAGE 7

19						19				
Oct.	1	Balance (10)	J 17	18	27	Oct.	2	C 20	18	27
	5	10 days	S 101	a 16	25		9	C 20	a 10	—
	11	30 days	S 103	56	25		18	C 20	25 — 6 25	
	27	10 days	S 113	38	50		26	C 20	a 6 50 2 25	
	29	30 days 112.25	S 117	42 50 15 50						

Central Hotel

216 Fairview Ave City

PAGE 8

19						19				
Oct.	1	Balance (11)	J 17	69	18	Oct.	6	C 20	50	—
	26	19.18	S 112	~~44 25~~						

Park Hotel

165 Willis St, City

PAGE 9

19						19				
Oct.	8	Weekly	S 102	59	35	Oct.	12	C 20	30	50
	16		S 105	51	40		22	C 20	25	75
	20		S 107	137	85					
	24		S 110	142	50					
				391	10				391	10

M. A. Johnson

9 Jay St, Kingston

PAGE 10

19						19				
Oct.	13	10 days	S 104	a 54	40	Oct.	18	C 20	a 35	—
	26	63.65	S 112	44 9	25 65					

Illustration 28, Ledger, Pages 1–10

PAGE 11

James C. Wilson

416 Broad St. City

19							19					
Oct.	19	10 days		J	106	44 30	Oct.	25		C	20	22 15
	23	30 days		J	108	132 55						
	29	10 days	192.26	J	115	37 56						

PAGE 12

C. L. Lord

R.F.D. No. 11, City

19							19					
Oct.	23	10 days		J	109	26 05	Oct.	31		C	20	26 05

PAGE 13

Park Hotel

165 Willis St. City

19							19					
Oct.	24	Bal. Brot. Fwd.		J	9	334 85	Oct.	27		C	20	91 25
	26	Weekly		J	111	82 05		27	Bal. due 10/27	J	17	101 10
	27	"		J	114	80 25		31		C	20	50
	29		347.70	J	116	92 90						

PAGE 27

Merchandise Inventory

19							19					
Oct.	1	Inventory (14)		J	17	521 65	Oct.	31		J	18	521 65
	31			J	18	1094 84						

PAGE 28

Supplies

19							19					
Oct.	1	Inventory (18)		J	17	62 55	Oct.	31		J	17	42 37
	2			C	21	16 85		31	Inventory	✓		47 03
	13			C	21	10 —						
						89 40						89 40
Nov.	1	Inventory		✓		47 03						

PAGE 29

Prepaid Insurance

19							19					
Oct.	1	Unexpired (19)		J	17	60 —	Oct.	31		J	17	10 —
						60 —						60 —
Nov.	1	Unexpired		✓		50 —						

Illustration 28, Ledger, Pages 11–29

Equipment

PAGE 30

19										
Oct.	2		J17	475	—					

Depreciation Reserve

PAGE 31

					19 Oct.	31		J17	9	50

Notes Payable

PAGE 33

19					19						
Oct.	18	C21	160	—	Oct.	1	Balance(25)	J17	160	—	
						13	30 days	J17	275	—	

J. A. Whitney & Co.

212 Oliver St. City

PAGE 34

19					19					
Oct.	2	C21	10866		Oct.	1	Balance(27)	J17	10866	

Proctor & Gamble

Third & Broadway, City

PAGE 35

19					19					
Oct.	19	C21	5802		Oct.	1	Balance(29)	J17	5802	

Franklin Sugar Co.

1818 Oak St. City

PAGE 36

19					19					
Oct.	17	C21	13696		Oct.	3	1/2-15 days	P12	13696	
						29	1/2-10 days	P12	20240	

Winters Supply Co.

335 Broadway, City

PAGE 37

19					19					
Oct.	13	C21	a200	—	Oct.	2	10 days	J17	a475	—
	13	J17	a275	—						

Illustration 28, Ledger, Pages 30–37

PAGE 38

J. W. Allen & Co.

32 Center St. City

19				19				
Oct.	3	C21	a 89 65	Oct.	2	10/1 – 30 days	P12	a 179 30
	6	C21	b 97 —		5	10/4 – 30 days	P12	b 194 —
	29	C21	c 230 —		10	10/9 – 20 days	P12	c 230 —
					15		P12	48 —
					23	10/22 – 30 days	P12	199 10
					26	10/25 – 30 days	P12	216 50
			650.25					

PAGE 39

L. B. Dick & Co.

Springfield

19					
Oct.	15			P12	81 78
	30	10/29 – 15 days		P12	812 05

PAGE 40

Lake View Creamery

76 Bank St. City

19				
Oct.	17	10/14 – 20 days	P12	30 —
	22	10/20 – 20 days	P12	48 —

PAGE 45

N. W. Good, Capital

19					
Oct.	1	Bres. Cap. (40)	J17		15216 5
	22		C20		500 —
	31	R & L Summary	J18		126 89
				21485 4	21485 4
Nov.	1	Present Capital	✓		21485 4

PAGE 46

N. W. Good, Drawing.

19				19				
Oct.	5	C21	50 —	Oct.	31	R & L Summary	J18	100 —
	18	C21	50 —					
			100 —					100 —

Illustration 28, Ledger, Pages 38–46

Sales

PAGE 8

19					19				
Oct.	27		J17	110	Oct.	6		C20	13210
	31	P.&L. Summary	J18	152466		20		C20	14450
						31		C20	11025
						31	152466	S14	113891/2
				152576					152576

Purchases

PAGE 52

19					19				
Oct.	3		P12	164709	Oct.	31	Inventory	J18	109484
	31		J18	52165		31	P.&L. Summary	J18	107390
				216874					216874

Rent Expense

PAGE 67

19					19				
Oct.	1		C21	75—	Oct.	31	P.&L. Summary	J18	75—

Salary Expense

PAGE 58

19					19				
Oct.	15		C21	3750	Oct.	31	P.&L. Summary	J18	75—
	31		C21	3750					
				75—					75—

Illustration 28, Ledger, Pages 51–58

PAGE 59

Miscellaneous Expense

19						19				
Oct.	4		C21	3 25		Oct.	31	P. & L. Summary	J18	12 —
	12		C21	1 50						
	25		C21	2 50						
	31		C21	4 75						
				12 —						12 —

PAGE 60

Supplies Used

19					19				
Oct.	31		J17	42 37	Oct.	31	P. & L. Summary	J18	42 37

PAGE 61

Expired Insurance

19					19				
Oct.	31		J17	10 —	Oct.	31	P. & L. Summary	J18	10 —

PAGE 62

Depreciation Expense

19					19				
Oct.	31		J17	9 50	Oct.	31	P. & L. Summary	J18	9 50

PAGE 63

Profit and Loss Summary

19					19				
Oct.	31	Purchases	J18	107390	Oct.	31	Sales	J18	152466
	31	Rent Expense	J18	75 —					
	31	Salary Expense	J18	75 —					
	31	Misc. Expense	J18	12 —					
	31	Supplies Used	J18	42 37					
	31	Expired Ins	J18	10 —					
	31	Depr. Expense	J18	9 50					
	31	H. W. Good Draw	J18	100					
	31	H. W. Good Cap	J18	12689					
				152466					152466

Illustration 28, Ledger, Pages 59–63

Working Sheet. The illustration below contains the Trial Balance, October 31, the net profit for the month of October and the proprietorship at the close of the October monthly fiscal period. The net profit and proprietorship were ascertained from the account balances on the Trial Balance and the following information: merchandise inventory, $1,094.84; supplies inventory, $47.03; prepaid insurance, $50.00; estimated monthly depreciation on equipment, 2%.

The six columns at the right of the Trial Balance column in the illustration below were used for ascertaining net profit and present proprie-

H. W. Good
Working Sheet, October 31, 19

NAME OF ACCOUNT	TRIAL BALANCE DR.	TRIAL BALANCE CR.	ADJUSTMENTS DR.	ADJUSTMENTS CR.	BALANCE SHEET ASSETS	BALANCE SHEET LIAB. & PROP.	P. & L. STATEMENT COST & EXP.	P. & L. STATEMENT INCOME
Cash	1024 61				1024 61			
Notes Receivable	100 —				100 —			
A. R. Jennings	112 25				112 25			
Central Hotel	19 18				19 18			
Park Hotel	347 70				347 70			
M. A. Johnson	63 65				63 65			
James C. Wilson	192 26				192 26			
Merchandise Inventory	521 65		1094 84	521 65	1094 84			
Supplies	89 40			42 37	47 03			
Prepaid Insurance	60 —			10 —	50 —			
Equipment	475 —				465 50			
Depreciation Reserve				9 50				
Notes Payable		275 —				275 —		
Franklin Sugar Co.		202 40				202 40		
J. W. Allen & Co.		650 25				650 25		
L. B. Dick & Co.		162 83				162 83		
Lake View Creamery		78 —				78 —		
H. W. Good, Capital		2021 65				1921 65		
H. W. Good, Drawing	100 —							
Sales		1524 66						1524 66
Purchases	1647 09		521 65	1094 84			1073 90	
Rent Expense	75 —						75 —	
Salary Expense	75 —						75 —	
Miscellaneous Expense	12 —						12 —	
Supplies Used			42 37				42 37	
Expired Insurance			10 —				10 —	
Depreciation Expense			9 50				9 50	
	4914 79	4914 79	1678 36	1678 36	3517 02	3290 13	1297 77	1524 66
Net Profit						226 89	226 89	
					3517 02	3517 02	1524 66	1524 66

Illustration 29, Working Sheet

torship. The account balances on the Trial Balance which show assets, liabilities, proprietorship, income or expenses and which are not affected by inventories, are extended into one of the four columns at the right. Adjustments because of inventories are made in the Adjustments columns and the adjusted account balances extended into one of the four columns at the right. The depreciation reserve is recorded in the Adjustments column and subtracted from the Equipment account to show book value in the Assets column.

The sum of the October 1 merchandise inventory and the balance of the Purchases account is the total merchandise available for sale. This sum minus the October 31 merchandise inventory is the cost of merchandise sold.

Balance Sheet. The illustration below shows a Balance Sheet prepared in report form from the assets, liabilities, and proprietorship as stated in the Balance Sheet columns of the Working Sheet. The facts presented in this Balance Sheet show that Assets − Liabilities = Proprietorship.

N. W. Good
Balance Sheet, October 31, 19

Assets.			
Cash		1024 61	
Notes Receivable		100 —	
Accounts Receivable:			
A. R. Jennings	112 25		
Central Hotel	19. 18		
Park Hotel	347.70		
M. A. Johnson	63. 65		
James C. Wilson	192.26	735 04	
Merchandise Inventory, Oct. 31		1094 84	
Supplies		47 03	
Prepaid Insurance		50 —	
Equipment	475.—		
Less Depreciation Reserve	9.50	465 50	
Total Assets			3517 02
Liabilities:			
Notes Payable		275 —	
Accounts Payable:			
Franklin Sugar Co	202.40		
J. W. Allen & Co.	650.25		
L. B. Dick & Co.	162.83		
Lake View Creamery	78.—	1093 48	
Total Liabilities			1368 48
N. W. Good, Present Capital			2148 54

Illustration 30, Balance Sheet, Report Form

The total assets on the Balance Sheet agrees with the total of the Assets column on the Working Sheet because the depreciation reserve is subtracted from the Equipment account to ascertain book value. The total liabilities on the Balance Sheet equals the total liabilities recorded first in the Liabilities column. The proprietorship shown on the Balance Sheet is the sum of the net investment and net profit recorded in the Liabilities and Capital column of the Working Sheet.

The Profit and Loss Statement. The illustration below shows the income from sales, cost of sales, gross profit on sales, expenses and net profit. This information is obtained from the Cost and Expense, and Income columns of the Working Sheet. The net profit is the profit on sales minus the expenses.

A. W. Good
Profit and Loss Statement for October, 19

Income from Sales:			
Net Sales			1524 66
Cost of Goods Sold:			
Merchandise Inventory, Oct. 1	521.65		
Add Purchases	1647.09	2168 74	
Deduct Mdse. Inventory, Oct. 31		1094 84	
Cost of Goods Sold			1073 90
Gross Profit on Sales			450 76
Operating Expenses:			
Rent Expense		75 —	
Salary Expense		75 —	
Miscellaneous Expense		12 —	
Supplies Used		42 37	
Expired Insurance		10 —	
Depreciation Expense		9 50	
Total Operating Expenses			223 87
Net Profit			226 89

Illustration 31, Profit and Loss Statement

The Post-closing Trial Balance. The Trial Balance at the top of page 170 was prepared from the ledger, pages 161–166, after the adjusting and closing entries on pages 155 and 156 were posted and the Cash and Capital accounts balanced.

The information contained in this Post-closing Trial Balance is the same as that shown on the Balance Sheet; each contains the balances of the open accounts in the ledger after the ledger is closed.

H. W. Good
Post-closing Trial Balance, October 31, 19

1	Cash	1024 61	
2	Notes Receivable	100 —	
7	A. R. Jennings	112 25	
8	Central Hotel	19 18	
10	M. A. Johnson	63 65	
11	James C. Wilson	192 26	
13	Park Hotel	347 70	
27	Merchandise Inventory	1094 84	
28	Supplies	47 03	
29	Prepaid Insurance	50 —	
30	Equipment	475 —	
31	Depreciation Reserve		950
33	Notes Payable		275 —
36	Franklin Sugar Co.		202 40
38	J. W. Allen & Co.		650 25
39	L. B. Dick & Co.		162 83
40	Lake View Creamery		78 —
45	H. W. Good, Capital		2148 54
		3526 52	3526 52

Illustration 32, Post-closing Trial Balance

CLASSIFICATION OF ACCOUNTS

Each account on the ledger contains a record of the changes in an asset, a liability, proprietorship, income or expense; the title of the account describes the nature of the element. The accounts on the ledger of H. W. Good, pages 161–166 grouped as suggested are:

ASSETS	LIABILITIES	PROPRIETORSHIP	INCOME	COST
Cash	Notes Payable	H. W. Good, Capital	Sales	Purchases
Notes Receivable	J. A. Whitney & Co.	H. W. Good, Drawing		
A. R. Jennings	Proctor & Gamble			EXPENSE
Central Hotel	Franklin Sugar Co.			Rent Expense
Park Hotel	Winters Supply Co.			Salary Exp.
M. A. Johnson	J. W. Allen & Co.			Misc. Expense
James C. Wilson	L. B. Dick & Co.			Supplies Used
C. L. Lord	Lake View Creamery			Expired Ins.
Mdse. Inventory				Deprec. Exp.
Supplies				
Prepaid Insurance				
Equipment				
—Deprec. Reserve				

The grouping above is given for classification purposes. Income and expense accounts are temporary proprietorship accounts and closed into

the proprietor's account at the close of the fiscal period, but are classified as income and expenses during the fiscal period.

Purchases is classified as a cost or an expense because it is shown on the Profit and Loss Statement as a part of the cost of goods sold. Each debit to the Purchases account represents an increase in the asset merchandise but usually the greater part of this merchandise has been sold and that part which has not been sold at the close of the fiscal period is transferred to the Merchandise Inventory account.

Depreciation Reserve may be classified as a *minus* asset or a *valuation* account. Either classification indicates that the credit balance is not a liability, but a deduction from an asset to determine the book value of the asset.

Exercise 66, Review of the Model Set

(ORAL)

1. Under what conditions is it necessary to open a new ledger?
2. What transactions are recorded in the purchases journal?
3. What transactions are recorded in the sales journal?
4. What transactions are recorded (a) on the receipts side of the cash book? (b) on the payments side?
5. When is the Trial Balance prepared?
6. What is the purpose of the Trial Balance?
7. Why is it necessary to know the merchandise inventory at the close of the fiscal period?
8. Why is it necessary to know the supplies inventory at the close of the fiscal period?
9. Why is it necessary to know the amount of the unexpired insurance at the close of the fiscal period?
10. Could the records be kept so that the asset values suggested in the three preceding questions can be obtained from account balances? How?
11. The cost value of the merchandise is recorded in each sale. (a) Is it necessary to take stock? (b) Why?
12. What is the purpose of the Working Sheet?
13. What is the purpose of (a) the Adjustments columns on the Working Sheet? (b) Balance Sheet columns? (c) Profit and Loss Statement columns?
14. What effect does an amount in the debit Adjustments column have on an account balance in the Trial Balance column on the same line with it?
15. What effect does an amount in the credit Adjustments column have on an account balance in the Trial Balance column on the same line with it?
16. At the close of the fiscal period, the debit balance of the Merchandise Inventory account was $12,500.00 and the Purchases account was $18,000.00; the merchandise inventory was $10,000.00. (a) What was the cost of the goods sold during the fiscal period? (b) How was it recorded?

17. What figures are placed in the Adjustments columns on the Working Sheet to adjust the Merchandise Inventory and Purchases accounts mentioned in the preceding question?

18. What is the purpose of the Balance Sheet and how is the desired information shown on it?

19. What is the purpose of the Profit and Loss Statement and how is the desired information shown on it?

20. What two columns on the Working Sheet may be used as a basis for the adjusting entries?

21. What two columns on the Working Sheet may be used as a basis for the closing entries?

22. Why are the adjusting entries recorded in the ledger and the temporary proprietorship accounts closed at the close of each fiscal period?

23. What two columns on the Working Sheet agree with the account balances in the ledger after it is closed?

24. Could the ledger be closed and the Balance Sheet and Profit and Loss Statement prepared from it after closing?

25. (a) Should the bookkeeper close the ledger before preparing the Balance Sheet and Profit and Loss Statement, from what account in the ledger would the Profit and Loss Statement be prepared? (b) What account balances in the ledger would appear on the Balance Sheet?

Exercise 67, Reports and Closing Entries

The Trial Balance in the illustration at the right is the one from which the Balance Sheet for H. W. Good, page 154, was prepared, September 30. The inventories are as follows: merchandise, $521.65; supplies, $62.55; prepaid insurance, $60.00. From the account balances and the facts stated regarding the inventories, prepare (a) a Working Sheet, (b) Balance Sheet, (c) Profit and Loss Statement, and (d) adjusting and closing entries. The net profit should be $221.65 and the present capital $1,521.65.

H. W. GOOD
TRIAL BALANCE, September 30, 19

Cash	1016	68		
Notes Receivable	100			
A. R. Jennings	18	27		
Central Hotel	69	18		
Merchandise Inventory	321	16		
Supplies	103	42		
Prepaid Insurance	70			
Notes Payable			160	
J. A. Whitney & Co.			108	66
Procter & Gamble			58	02
H. W. Good, Capital			1300	
Sales			1776	40
Purchases	1540	87		
Rent Expense	75			
Salary Expense	75			
Miscellaneous Expense	13	50		
	3403	08	3403	08

CHAPTER XV

BUSINESS FORMS AND VOUCHERS

The usual business forms which represent transactions are illustrated in Chapter VII. The discussion in this chapter provides a review of these business forms and information regarding transactions with a bank.

Invoice for Goods Purchased. The illustration below shows the invoice rendered for merchandise purchased by H. W. Good from J. W. Allen & Co. The check mark at the right of J. W. Allen & Co. indicates that the record has been made in the purchases journal (first entry, Illustration 25, page 157). The other check marks indicate that the invoice has been verified.

J. W. ALLEN & CO. ✓

WHOLESALE GROCERS
53 CENTER STREET
CINCINNATI

Ord. No. & Date
Requisition No.
Contract No.
Shipped To H. W. Good
Destination City

Invoice Date October 1, 19
Invoice No. 7992
Shipper's Order No.

Column reserved for use of customer.
P. A. Invoice No.
Voucher No.

Terms:
½ Cash; balance 30 days

H. W. Good
512 So. Main St.
City

CHECKED
With order ✓
F. O. B. point ✓
Price ✓
Calculations ✓
Transportation ✓
Trans. Chgd. Back

Date Shipped Oct. 1 From F. O. B.
Car No. and Int.
How Shipped and Route Delivered

DESCRIPTION	QUANTITY (KNOW UNIT)	PRICE PER UNIT	AMOUNT
13 bbls. Superior Flour	13	8.10	105.30
6 bbls. White Rose Flour	6	7.25	43.50
10 doz. cans Pineapple	10	2.25	22.50
2 buckets Candy	2	4.00	8.00
			179.30

Above Materials received Oct. 4, 19 and found satisfactory (Signed) W. M. Spencer (Title) Clerk
Charge Account Approved Approved

Illustration 33, Purchase Invoice

This is the National Standard Invoice Form, adopted by a national conference held under the auspices of Division of Simplified Practice, Department of Commerce, Washington, D. C.

Invoice for Goods Sold. The retail merchant usually renders sales invoices only when requested to do so by the charge customer. When a sales invoice is not rendered, the order is acknowledged by a sales ticket. The sales ticket is illustrated on page 76 and the sales invoice on page 174.

The illustration below shows the sales invoice rendered by H. W. Good to the Park Hotel. The check marks indicate verification before the sales invoice was recorded in the sales journal, second entry on page 157.

H. W. GOOD

DEALER IN

Fancy Groceries, Provisions and Country Produce

October 8 19

Sold to Park Hotel ✓ No. 102

Terms Weekly 165 Wallis St. City

Quantity	Items	Price	Dollars	Cts.	Total	
10	lbs. St. Nicholas Coffee	.30	3	—	✓	
3	Premium Hams, 29½ lbs.	.30	8	85	✓	
3	bbls Superior Flour	9.00	27	—	✓	
2	doz jars Assorted Preserves	5.00	10	—	✓	
3½	doz cans Cherries	3.00	10	50	✓	
					59	35 ✓

Illustration 34, Sales Invoice

A Bill. The illustration below shows the October telephone bill rendered to H. W. Good and paid by him October 4 (see page 159). Payment is acknowledged through receipting the bill. A list showing services rendered and the charge therefor is usually referred to as a *bill.*

IF NO RECEIPT IS REQUIRED RETAIN BILL AND FORWARD ONLY CASHIER'S STUB WITH REMITTANCE

LAST DAY OF PAYMENT OCTOBER 18th

FORM 601

Cincinnati, O., October 1, 19

THE BELL TELEPHONE CO.

Telephone Building, 225 E. Fourth Street, Cincinnati, O.

See back of bill for rules and regulations regarding the billing and collection of accounts.

H. W. GOOD M. 1263
512 SO. MAIN ST.
CINCINNATI, OHIO

Exchange Service for October 1 to 31, 192 inclusive	3 25
" "	
Additional Local Messages Sept. 1 to 30, 192	
Toll Service Statement Herewith	
Balance Due on Bill Previously Rendered	
Office closed on Legal Holidays and at 12 Noon on Saturdays.	

Illustration 35, Receipted Bill

A Receipt. A written acknowledgment of cash received is referred to as a *receipt.* A receipt is issued by the one receiving the cash and issued to the one from whom the cash was received. The form of receipt illustrated in

Chapter VII is used quite extensively in business when cash receipts and payments are with money. When payment is made by check, the canceled check is usually regarded as sufficient receipt as explained in this chapter.

TRANSACTIONS WITH THE BANK

Opening an Account with the Bank. An account is opened with a bank through the permission of the proper bank official. When this permission has been granted and money deposited with the bank, the one making the deposit is known as the *depositor* or *customer* of the bank. A depositor opens an account with the bank to provide a safe place for his money and a convenient means of paying it.

Deposit Ticket. The blank provided by the bank on which to list the money or money and cash items to be deposited is referred to as a *deposit ticket.* Deposit tickets are usually supplied the depositor in pads, but some banks provide them bound in a book arranged so that the depositor may retain a carbon copy of the items deposited. One form of deposit ticket is illustrated at the left.

DEPOSITED FOR
A. W. Good
NAME
512 So. Main St.
ADDRESS
IN THE
MERCHANTS NATIONAL BANK
October 6, 19
ALL CHECKS, NOTES AND DRAFTS CREDITED, SUBJECT TO ACTUAL COLLECTION.
PLEASE LIST EACH CHECK SEPARATELY

	Dollars	Cents
SPECIE	14	37
BILLS	82	—
CHECKS (When in City, state name of Bank; out of City, name of place where payable)		
„ City Natl Bank	50	—
„ Springfield Ill	18	55
„ P. O. Money Order	10	45
„ Express „ „	25	—
„		
„		
„		
Total	200	37

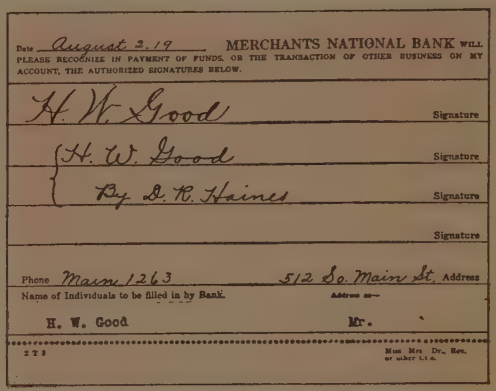
See that All Checks And Drafts Are Endorsed

Illustration 36, A Deposit Ticket

Specie refers to silver money, nickels and pennies; half dollars, quarters, dimes, nickels, and pennies should be wrapped in coin wrappers provided by the bank. Bills refer to paper money; they should be arranged in the order of the denominations with the smallest denomination on top. As explained on the deposit ticket, the name of the bank or the town for out of town banks is to be indicated on a line with the amount of each check. If desired, however, the A. B. A. numbers may be used in place of the title of the bank or name of the town; see number at the left of the bank on the Berwick, Pa., check on page 181, and information in regard to A. B. A. numbers on page 185. Banks usually print on the deposit ticket the information which they desire depositors to show. "P. O. Money Order" and "Express Money Order" indicate the nature of the last two items on the deposit ticket illustrated. The $200.37 is the sum of the items deposited.

Signature Card. The new depositor is required to sign his name on a card in the same manner as he will sign it on checks which he issues for payment by the bank. The card on which the depositor writes his signature is referred to as a *signature card.*

The illustration at the right shows one form of a signature card. The depositor, H. W. Good, has signed his name in the same form as he will sign checks. His bookkeeper has also signed the signature card in the same form as he will sign the name of H. W. Good.


Date August 2, 19 MERCHANTS NATIONAL BANK will
PLEASE RECOGNIZE IN PAYMENT OF FUNDS, OR THE TRANSACTION OF OTHER BUSINESS ON MY ACCOUNT, THE AUTHORIZED SIGNATURES BELOW.

H. W. Good Signature

H. W. Good Signature

By D. R. Haines Signature

Signature

Phone Main 1263 512 So. Main St. Address

Name of Individuals to be filled in by Bank. Address as—

H. W. Good Mr.

223 Miss Mrs Dr., Rev. or other Title

Illustration 37, Signature Card

The purpose of the signature card is to provide the bank with a record of the depositor's signature or the signature for the checks issued against the funds deposited by him. With this information the bank has a means of protecting itself against loss through *forgery.*

The Pass Book. The ruled blank provided by the bank containing a record of the deposits made by a depositor is referred to as a *pass book.* All entries in the pass book are made by an official of the bank, hence the pass book provides the depositor with a receipt for all cash deposited in the bank by him. The depositor should present his pass book with each deposit so that the receiving teller may enter therein the date and amount of the deposit.

At the end of each month the depositor may be required to leave his pass book at the bank to be balanced. Later it will be returned to him with the balance on deposit at the close of the month stated in it. The method of stating the balance is shown in the pass book, Illustration 41. The explanation given in connection with the illustration contains further information regarding the use of the pass book.

Withdrawing Money from the Bank. The depositor withdraws money which he has deposited in the bank through a written order known as a *check.* No standard form is necessary, but for the convenience of the depositor and the employees of the bank, it is customary for the bank to provide the depositor with printed forms usually referred to as *blank checks.* These blank checks are usually bound in a book with a stub attached to each check. The depositor uses the blank check for writing his order on the bank and the stub for a record of the check. Space is provided on the check and on the stub for a number. The depositor should number each check and its corresponding stub with the same number, arranging the numbers consecutively beginning with the first check issued.

Illustration 38 shows a check book with two checks to the page. The first check is filled out to be given to J. J. Kline. The stub contains the informa-

tion needed by H. W. Good, the depositor. The columns between the stub and the check are for the convenience of the depositor when keeping a record of his transactions with the bank.

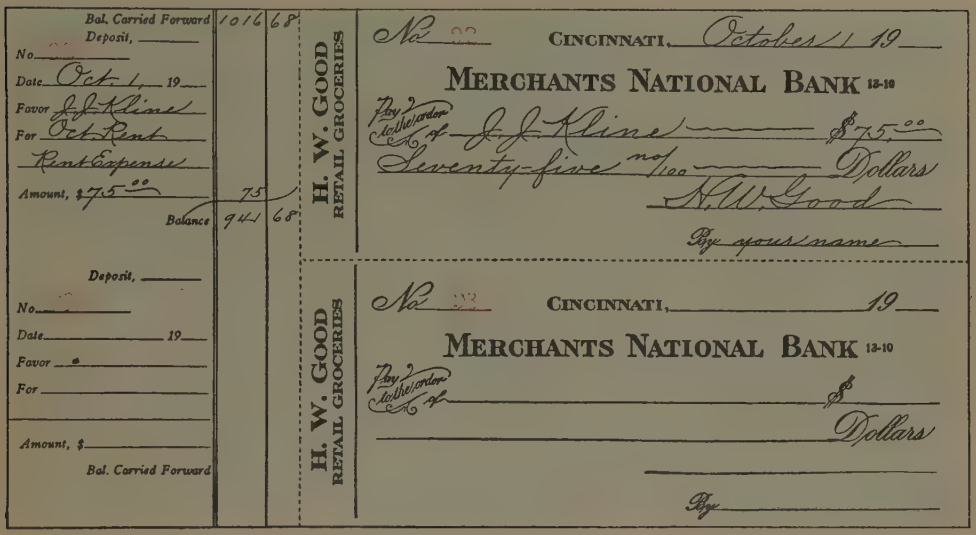


Illustration 38, Check Book

Writing a Check. A check should be written in the following order:

(1) Enter the desired information on the *stub;* this includes all the information to be put on the check, also the name of the account to be debited.

(2) Enter on the *check* the desired information as follows:

(a) The number of the check.
(b) The date which includes the month, day of the month and year.
(c) The name of the person or firm to whom the check is payable.
(d) The amount, both in writing and in figures.
(e) Signature of the depositor as stated on the signature card.

If the check is signed by an agent, the name of the agent should appear below the name of the depositor in the same manner as it is written on the signature card. In Illustration 38, the "your name" refers to the name of the student, since this check is used as a model by the student when writing the first check in the practice set.

The reason for the check may be written in the lower left hand corner of the check. "Cash purchase", "In full of account", "To apply on purchase of October 1", or "October rent" would indicate the purpose.

If the depositor or his authorized agent wishes to withdraw cash from the bank, it will be necessary for him to write a check in the same form as that used when the bank is ordered to pay the money to a third party. The check may be made payable to the depositor, to "Cash" or to the purpose for which the check is issued, as "Pay roll" or "Stamps". The one who presents the check to the bank for the money is usually required to sign his name on the back of the check so that the bank may know to whom the money was paid.

Depositor's Record of the Transactions with the Bank. Each depositor should keep a record of the transactions which he completes with the bank. This includes the date and amount of each deposit, the date and amount of each check written, and the balance after the check is written or the balance at the end of the month. This record may be kept on the check stub as in Illustration 38, page 177, or in the check register as in Illustration 39, below.

For a record of the cash receipts and payments, see the cash book on pages 158 and 159.

Check Register

DATE	No.	ORDER OF	FOR	AMOUNT OF CHECK	DATE OF DEPOSIT	AMOUNT OF DEPOSIT	BALANCE
Oct. 1		Balance					1016 68
1	92	J. J. Kline	Oct. rent	75 —			941 68
2	93	J. A. Whitney & Co.	In full of acct.	108 66			833 02
2	94	Johnson Supply Co.	Wrapping paper	16 85			816 17
3	95	J. W. Allen & Co.	½ of Pur. of 10/2	89 65			726 52
4	96	Bell Telephone Co.	Telephone service	3 25			723 27
5	97	H. W. Good	Personal use	50 —			673 27
6	98	J. W. Allen & Co.	½ of Pur. of 10/4	97 —	Oct. 6	200 37	776 64
13	99	Winters Supply Co.	In full of acct.	200 —	13	39 —	615 64
13	100	Cash	Stamps	10 —			605 64
15	101	W. M. Spence	Salary	37 50			568 14
17	102	Franklin Sugar Co.	In full of acct.	136 96			431 18
18	103	H. W. Good	Personal use	50 —			381 18
18	104	Scott Bros.	Pay't of 60 day note	160 —			221 18
19	105	Proctor & Gamble	In full of acct.	58 02	20	204 50	367 66
25	106	Daily News	Advertisement	2 50	27	745 40	1110 56
29	107	J. W. Allen & Co.	Full of Pur. of 10/9	230 —			880 56
31	108	City Water Works	Water	1 50			879 06
31	109	National Light Co.	Light	3 25			875 81
31	110	W. M. Spence	Salary	37 50	31	1863 0	1024 61

Illustration 39, A Check Register

The purpose of the above illustration is to avoid the possibility of the depositor's asking the bank to pay more money than he has on deposit. Since this information will be needed at the time a check is issued, the balance in the bank should be shown either on the stub or in the check register after the amount of the check is deducted or a deposit is added. The record maintained by the depositor should be such that it may be compared with the record maintained by the bank, since the two records should agree when all checks issued have been paid by the bank.

Bank Record. The bank maintains a record of the transactions completed with each depositor. The information for this record is obtained from the deposit tickets prepared by the depositor and the checks issued by the depositor and paid by the bank. As a result of these transactions, the balance of the account with each depositor on the ledger of the bank will be the amount the bank owes the depositor.

Banks usually provide each depositor with a statement of his account at the end of each month. This statement shows the balance at the beginning of the month, the deposits made by the customer during the month, the date

on which each was made, the amount of each check paid by the bank, the date paid, and the balance at the end of the month. This statement and the canceled checks are given to the depositor so that he may *reconcile* his record with that of the bank. Illustration 40 below shows the usual form of monthly statement rendered by the bank to its depositors.

H. W. Good

IN ACCOUNT WITH

THE MERCHANTS NATIONAL BANK

15 VOUCHERS RETURNED

REPORT PROMPTLY ANY CHANGE IN YOUR ADDRESS

PLEASE EXAMINE AT ONCE | IF NO ERROR IS REPORTED WITHIN TEN DAYS THE ACCOUNT WILL BE CONSIDERED CORRECT

DATE	CHECKS IN DETAIL			DATE	DEPOSITS
	BALANCE BROUGHT FORWARD				$1016.68
Oct. 3	75.00 -	16.85 -			
5	108.66 -	50.00 -	3.25 -		
9	97.00 -	89.65 -			200.37
15	200.00 -	10.00 -	37.50 -		39.00
18	136.96 -	50.00 -			
23	160.00 -	58.02 -			204.50
31	37.50 -				745.40
					186.30
			BALANCE		$1261.86

Illustration 40, Bank Statement

Reconciliation of the Bank Account. When the depositor receives his monthly statement from the bank, he should compare the bank's balance with the balance on the check stub or check register. The two balances will be the same if all checks written by the depositor have been paid by the bank and no errors in the calculations have been made either by the depositor or by the clerical workers in the bank.

If all the checks issued by the depositor have not been paid by the bank, the balance in the bank will be larger than that shown by the depositor's record. This difference should be reconciled to see if the sum of the unpaid checks when deducted from the bank balance will give the balance in the depositor's record. The usual process of reconciliation is as follows:

(1) Compare the amount of each deposit on the bank statement with the amount of each deposit on the check stub or check register.

(2) Compare the amount of each canceled check returned by the bank with the stub from which it was removed. Place a check mark at the right of the amount on the check stub to indicate verification.

(3) Ascertain the sum of the unpaid checks. The balance in the bank as shown by the stub or check register plus the sum of the unpaid checks should be the same as the balance on the bank statement.

The illustration at the right shows the method of reconciling the check register on page 178 with the bank statement on page 179. Each canceled check returned by the bank is compared with the stub from which it was removed and with the record in the check register. Four checks, Nos. 106, 107, 108 and 109, have not been paid. The amount of each unpaid check is written under the check register balance. The sum of these five amounts gives the balance shown by the bank statement.

Check Register Balance 10/31	$1024.61
Unpaid Checks:	
No. 106	2.50
No. 107	230.00
No. 108	1.50
No. 109	3.25
Bank Balance 10/31	$1261.86

A daily proof of cash or proof of cash before making a deposit will facilitate the reconciliation of the bank statement with the record on the check stub at the end of the month. For this reason, it is customary to prove cash before depositing money in the bank.

Balancing the Pass Book. As stated on page 176, some banks require each depositor to leave his pass book at the end of the month so that the balance may be entered in it. Illustration 41 below shows a pass book in which the bank has stamped the date of the bank statement for three consecutive months. The October balance, $1,261.86, is the same as the October statement, Illustration 40. This bank enters the deposits on both sides of the pass book using the stamp to indicate the date on which a statement was rendered and the balance due the depositor as shown by the statement.

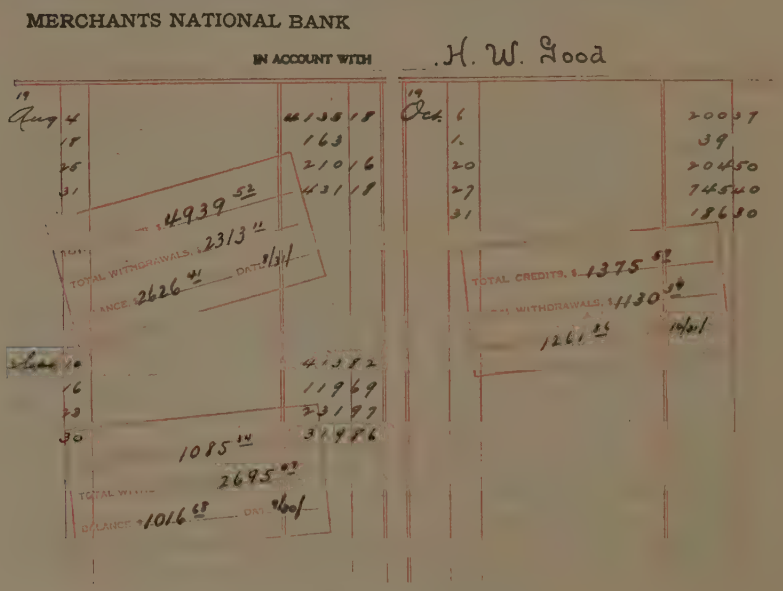


Illustration 41, Pass Book

Some banks use the left hand page of the pass book for deposits and the right hand page for the total checks returned to the depositor. When this plan is followed, the pass book is balanced at the end of each month similar to the cash book, pages 132 and 133.

Cash Items. The term *"cash"* is used in business to describe currency, bank checks, and other commercial papers used for and in the place of money. Sometimes a distinction is made between money and cash items, money being described as *cash* and checks as *cash items*. Cash items usually consist of (a) bank checks, (b) bank drafts, (c) cashier's checks, (d) express money orders, and (e) post office money orders.

All of these forms of cash items are a means of paying cash without handling the money. The arrangement of the facts in a cash item does not change its purpose.

A Bank Check is a written order by a depositor on the bank in which he has money deposited to pay money on deposit. The depositor may use the blank forms provided by the bank or he may prepare his own blanks in any form desired. Banks place no restriction on the form provided by the depositor, but recommend that the size of each blank check be three and three-eighths inches wide by eight and three-eighths inches in length.

The illustrations below show two forms of bank checks. Each is a written order on a bank to pay the amount stated but the arrangement is different. The size in each illustration is not the standard suggested above because of the reduction necessary to reproduce on this page.

PENNSYLVANIA.

BERWICK, PA. July 16 19 No. 333

60-713 THE BERWICK NATIONAL BANK 60-713

PAY TO Allen Bros. OR ORDER $75.59

Seventy-five and 59/100 DOLLARS

SAFE DEPOSIT BOXES FOR RENT.

Albert Smith

Illustration 42, A Bank Check

Cincinnati, January 24 19 No. 1234

Pay to the order of James Marshall $50.00

Fifty and no/100 DOLLARS

The Fourth National Bank, Cincinnati, O.
13-4

E. W. Watson

Illustration 43, A Bank Check

A Bank Draft. A check drawn by one bank on funds deposited in another bank is referred to as a *bank draft.* When an individual does not have a checking account and, therefore, can not send his personal check through

the mail, or when he does not believe that his personal check will be accepted, he can purchase a draft from a local bank. It is satisfactory to send a draft through the mail since it is payable only to the one in whose favor it is made, or on his order. If it is lost, its value can be recovered. It is more likely to be accepted by the one to whom it is sent than a personal check since one can easily determine the standing of a bank and whether its draft is good.

J. L. Nixon wishes to send $50.00 to W. O. Barnes in another city. He gives the bank $50.00 and receives a bank draft payable to W. O. Barnes and mails this to him. C. L. Mason of Clinton wishes to purchase an article which costs $125.00, from Day & Son, Chicago. He gives a Bank in Clinton his check for $125.00 and receives a Chicago draft. This draft mailed to Day & Son will insure prompt shipment.

There are many other uses of the bank draft, but the two given will serve to show the need for this form of cash item or *commercial paper*.

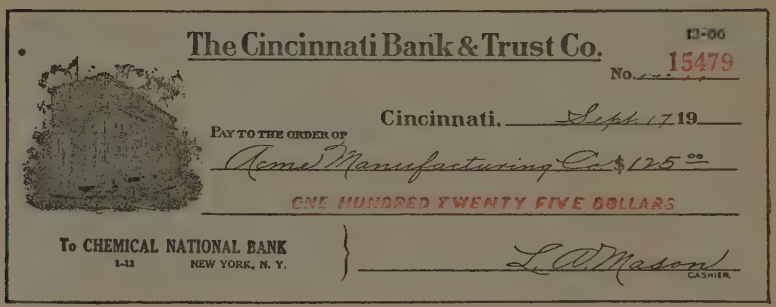


Illustration 44, Bank Draft

A Cashier's Check. A check drawn on a bank by its cashier is referred to as a *cashier's check*. A cashier's check is used by the issuing bank in payment for operating expenses of the bank, proceeds of notes collected by the bank, and many other forms of obligations which require the bank to make payments of cash. Cashier's checks are sometimes used for the same purpose as bank drafts where remittances are to be sent to a nearby city and the one making the remittance does not wish to send the money or a personal check.

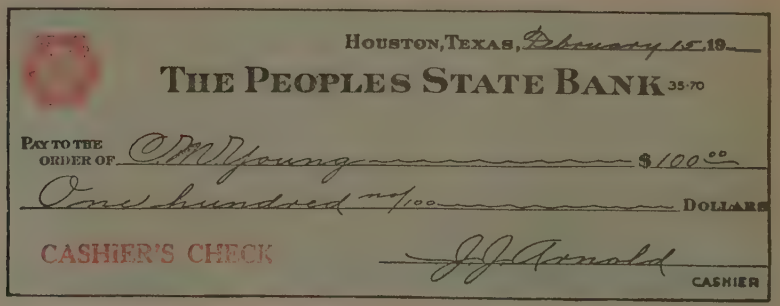


Illustration 45, Cashier's Check

A Money Order is an order on an express company or a postmaster. The purpose of money orders is the same as the bank draft, that is, a means of sending money through the mail. Money orders are also used for making remittance for parcel post and express *cash on delivery* (*C. O. D.*) *shipments.*

A money order drawn on an express company is referred to as an *express money order* and a money order drawn on a postmaster as a *postal money order.* A special form of money order known as a *traveler's check* is issued by both the American Express Company and the American Bankers Association.

Indorsement of Checks. At least three parties are financially interested in each check, (a) the depositor who signs it, (b) the bank ordered to pay it, and (c) the payee, that is, the one to whom the bank is authorized to pay the money. When a check has served its purpose, the name of each of these parties will have been written or stamped on it.

The depositor writes his name on the face of the check at the time he issues it. The payee writes his name on the back at the time he receives the cash or its equivalent. The name of the bank, the date the check is paid, and the word "Paid" are indicated on the face of the check by the bank at the time the check is paid.

The name of the depositor on the face of the check is referred to as the *signature;* the name of the payee on the back of the check as the *indorsement;* the date of payment and name of the bank on the face of the check as the *cancellation.* A *canceled check* is one that contains the signature, the indorsement and the cancellation.

Position of Indorsement. All indorsements are written on the back at a right angle to the writing on the check, that is they are written crosswise on the check instead of lengthwise. The first indorsement is written about one inch down from the edge of the left end; the left end is the left of the check when in position for reading. Subsequent indorsements are written below the first indorsement and parallel to it. The illustration on page 184 shows the position of indorsements. With the exception of those made with a rubber stamp the indorsements are parallel as suggested.

The Purpose of the Indorsement of a check is to acknowledge receipt of the money, to transfer the title, or for identification. An indorsement acknowledging receipt of the money requires the name of the payee only and is referred to as an indorsement *in blank.* An indorsement transferring the title may be in blank or may contain the words "Pay to the order of" written above the name of the one to whom the title is transferred; this latter form of indorsement is referred to as *in full.*

When the title is transferred by an indorsement in blank, subsequent indorsements are not necessary unless required by the one to whom the title is transferred. When the title is transferred by an indorsement in full, the one to whom the title is transferred must indorse the check before he can receive

the money. A *restrictive indorsement* is one which transfers the title for a specific purpose. An example of this is "For deposit" written above the indorsement. Each indorser for transfer is responsible for payment unless "Without recourse" is written in connection with the indorsement; when this is done, it is said to be a *qualified indorsement.*

The purpose, position, and nature of indorsements are further explained by the following illustrations:

James Carr of Cincinnati, Ohio, owed W. B. Spencer of Little Rock, Arkansas, $35 68. April 20, he paid this indebtedness by check on the First National Bank of Cincinnati. The face of the check when issued is shown in the first illustration at the right; the back at that time was blank. The second illustration at the right shows the face of the check when James Carr received it together with his other canceled checks from the bank June 1. The dots indicate punched holes in the canceled check which read "Paid, 5–3–27, 13–1." The third illustration at the right shows the information on the back of the canceled check.

CINCINNATI, OHIO, April 20 1927 No. 187

FIRST NATIONAL BANK 13-1

PAY TO THE ORDER OF W. B. Spencer - - - - - - - - - - - - - $35.68

Thirty-five and - 68/100 DOLLARS

James Carr

Front of Check When Issued

CINCINNATI, OHIO, April 20 1927 No. 187

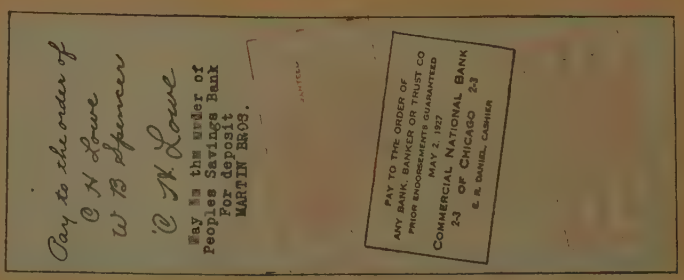
FIRST NATIONAL BANK 13-1

PAY TO THE ORDER OF W. B. Spencer - - - - - - - - - - - - - $35.68

Thirty-five and - 68/100 DOLLARS

James Carr

Front of Canceled Check



Back of Check Showing Indorsements

The information on the back of the canceled check may be interpreted as follows:

W. B. Spencer secured the cash or its equivalent from C. H. Lowe and ordered the amount of the check to be paid to him by an indorsement in full. C. H. Lowe secured cash or its equivalent from Martin Bros. and transferred

the check to them by an indorsement in blank. Martin Bros. deposited the check in the Peoples State Bank by a restrictive indorsement. The three bank indorsements are for the purpose of making collection.

It is customary in business to deposit a check as soon after it is received as possible. For this reason, the usual indorsement on a check is that of the payee for deposit in his bank. When a check is used for any other purpose, the one receiving it should require indorsement to show transfer of title.

The indorsement of bank drafts and money orders is for the same purpose as checks, hence made in the same manner. Post office money orders provide for the signature of the payee on the front but additional indorsements for collection may be made on the back.

Protest. When a bank check or bank draft is presented to the bank on which it is drawn and payment refused because the depositor does not have sufficient funds on deposit, it is said to be *dishonored* and each indorser may be held responsible for payment. The usual plan is to protest the dishonored paper. This protest is effected through a *notice of protest.* This notice of protest is issued by a notary public under his seal, the original mailed to the one who signed the check or draft and a copy sent to each indorser.

A dishonored check or bank draft is returned by the bank which protested it to the bank from which it was received. The bank to which the dishonored paper is returned will in turn return it to the bank from which it was received. This plan is followed until the dishonored paper has been returned to the bank in which it was deposited. This bank will present the dishonored paper to the depositor who deposited it and receive his check for the amount.

Some banks debit the depositor with the amount of the dishonored paper, but the usual plan is to collect from the depositor thus permitting all debits to his account to be made from checks issued by him.

A. B. A. Numbers. A greater part of the records of a bank relate to the collection of checks which have been received from depositors as money. In so far as possible these records are made on machines. To facilitate the records in connection with the collection of checks, the American Bankers Association of the United States (A. B. A.) has devised a series of numbers to describe the name and address of member banks, thus permitting the use of a number to describe the name and address of a bank. The number is usually printed on the check at the left or right of the name of the bank.

The small numbers shown in connection with the title of the bank in each illustration of a check in this text are the A. B. A. numbers used for the purpose described.

Federal Reserve Banks. There are twelve reserve banks each numbered consecutively beginning with one. Many member banks of the reserve system print on their checks the number of the district in which their bank is located; thus, the "4" in large type on the check in Illustration 43, page 181, indicates that the bank is located in the Fourth Federal Reserve District. The reserve bank for the fourth district is located in Cleveland, Ohio.

Exercise 68, Commercial Papers

(ORAL OR WRITTEN)

1. The indorsements on the back of a canceled check are shown at the right. (a) How many times was this check transferred? (b) What is the nature (in full, in blank or restrictive) of each indorsement?

J. L. Doyle

Pay to the order of
Robert Austin
W. B. Maine

For Deposit
Robert Austin

2. James Dawson has a check payable to himself for $75.00 signed by Joseph Smith. Show the necessary indorsements if the check is transferred (a) by the payee to A. L. Ball by an indorsement in full, (b) by A. L. Ball to C. H. Shoe by an indorsement in blank, (c) by C. H. Shoe to Abbott Bros. by an indorsement in blank, (d) by Abbott Bros. to the City National Bank for deposit?

3. Who is responsible for the payment of a postal money order? Why?

4. If the holder of a postal money order for $25.00 loses it, how may he avoid the loss of the money?

5. Can the finder of an express money order which is indorsed in blank secure the amount of money mentioned in the money order?

6. If the owner of a business cashes a check at the bank using one of the blanks on the counter and fails to fill out a stub and remove the blank check in the check book, when would his bookkeeper know that the check had been issued?

7. The information in the illustration at the left appears on the stub of a check, supplied a depositor by the City National Bank. (a) What information was written on the check? (b) What entry will be required to record the check?

No. *345*
Date.....*March 5, 19*.....
Favor.....*Morton Mfg. Co.*.....
For.....*In full of account*
Amount....*$121.83*

8. The bookkeeper issues a check but forgets to provide the needed information on the stub. How may he secure this information?

9. If it is desired to retain a copy of each deposit ticket, how can this be done?

10. The information in the illustration at the left appears on the stub of a check, supplied a depositor by the City National Bank. (a) What entry will be required for this payment? (b) What effect does this transaction have on the assets and expenses?

No. *128*
Date.....*May 1, 19*.....
Order of.....*L. A. Starr*.....
For.....*May rent*.....
Account.....*Rent Expense*.....
Amount.....*$150.00*

Exercise 69, Reconciliation of the Bank Account

The first illustration below shows the bank's monthly statement of its transactions and the second illustration, the depositor's record in check register form.

MILLER, JAMES M. — 15 VOUCHERS RETURNED

IN ACCOUNT WITH FIRST NATIONAL BANK

DATE	CHECKS IN DETAIL			DATE	DEPOSITS
	BALANCE BROUGHT FORWARD			June 1	$613.28
June 5	100.00	21.50	6.27		
9	1.00	2.08	6.00		
				June 10	150.00
15	21.76	9.13	1.82		
20	16.19	51.22	12.50	20	50.00
30	16.49	19.67	101.28	25	150.00
				BALANCE	$576.37

CHECK REGISTER

DEPOSITS		CHECKS			Balance
Date	Amount	Date	Check No.	Amount	
		June 1			613 28
		2	217	100 ✓	513 28
		3	218	21 50 ✓	491 78
		3	219	6 27 ✓	485 51
		4	220	13 32 ✓	472 19
		6	221	1 ✓	471 19
		7	222	2 08 ✓	469 11
		8	223	6 ✓	463 11
June 10	150				613 11
		11	224	21 76 ✓	591 35
		13	225	9 13 ✓	582 22
		14	226	1 82 ✓	580 40
		15	227	17 97 ✓	562 43
		16	228	16 19 ✓	546 24
		18	229	51 22 ✓	495 02
		18	230	12 50 ✓	482 52
20	50				532 52
		22	231	16 49 ✓	516 03
		24	232	19 67 ✓	496 36
25	150				646 36
		28	233	101 28 ✓	545 08
		29	234	35 40	509 68
		30	235	8 21	501 47

Instructions. Show a reconciliation of the bank account in the same form as that illustrated on page 180. The bank statement does not show the check numbers, but it does show the amounts and since there are no two checks which have the same amount, it will be easy to check the two records.

Exercise 70, Transactions with the Bank

During the month of April, J. E. Gill, a retail coal dealer, made deposits in the First National Bank and issued checks on the deposits in the bank as follows:

2. Deposit	$2,900.00	13. Check #13	$457.74
2. Check #1	208.80	14. Check #14	48.10
2. Check #2	20.00	14. Check #15	273.42
3. Check #3	450.00	14. Deposit	341.38
4. Check #4	101.00	16. Check #16	150.00
5. Check #5	150.00	18. Check #17	256.01
6. Check #6	75.00	21. Check #18	94.75
7. Check #7	165.50	21. Deposit	791.00
7. Check #8	40.00	24. Check #19	141.32
7. Check #9	38.00	25. Check #20	103.88
7. Deposit	248.65	27. Check #21	279.77
10. Check #10	445.23	28. Check #22	38.00
11. Check #11	60.00	30. Check #23	567.43
11. Check #12	49.50	30. Deposit	815.24

Instructions. (1) Show the balance in the bank after each check was subtracted or each deposit added in the same form as Illustration 38.

(2) May 1, the bank statement received with the canceled checks showed a balance of $1,667.57. A comparison of the canceled checks with the stubs showed that checks Nos. 9, 19, 22, and 23 had not been paid. Show the reconciliation of the bank account in the same form as illustrated on page 180.

PRACTICE SET No. 2

The transactions for this practice set are separate from the text because each transaction is represented by a business paper. The records are made from the facts given on the papers and not from a narrative of the transactions, as in Practice Set No. 1, page 109.

CHAPTER XVI

AVOIDING, LOCATING AND CORRECTING ERRORS

The purpose of recording transactions is to provide correct information. If there is an error either in the calculations necessary to ascertain the facts recorded or in recording these facts, the information provided from the bookkeeping records will be incorrect. The discussion in this chapter relates to (a) safeguards to avoid errors, (b) effective means of locating errors, and (c) methods of correcting errors.

Avoiding Errors. Incorrect records result from errors in

(1) Mathematical calculations; and

(2) Recording incorrect amounts or incorrect account titles.

The best means of avoiding errors in mathematical calculations is to verify all calculations before recording the transaction. The best plan for avoiding errors in recording amounts is to compare the amount recorded with that on the business paper which forms a basis for the record before filing the paper. Each verification should be indicated by a check mark (✓).

Verifying Extensions. The calculations necessary to ascertain the amount of a purchase or sale as stated on an invoice are referred to as the *extensions.* Checking the calculations on an invoice is referred to as *verifying the extensions.* An invoice should not be recorded in the purchases journal or a sales ticket should not be recorded in the sales journal until the extensions have been verified. Check marks at the left or right of the various calculations on the invoice or sales ticket will indicate this verification.

Verifying Amounts. Each entry in a journal is made from a business paper. Thus, the entry in the purchases journal is made from the invoice; in the sales journal from the sales ticket; in the cash receipts journal from the check received or the receipt stub; in the cash payments journal from the receipt received or the check stub; and in the general journal from the note, note stub or other paper. When a transaction has been recorded, the amount recorded should be checked with the amount on the business paper before the business paper is filed.

Checking the business papers should be indicated by a check mark either at the left or right of the amount on each paper. A definite position should be used so that the one filing the papers may readily see they have been recorded and checked. Checking the amounts recorded with the basis of the record should be done as soon as the entry has been made.

Checking the Posting. Errors in extensions and in recording amounts in the journals as discussed above are not discovered by the Trial Balance

so it is especially important that they be discovered by checking. Similarly, errors in posting to the wrong account will not be discovered by the Trial Balance. In addition, errors in posting wrong amounts may be difficult to locate even if a Trial Balance out of balance does show that mistakes have been made.

It is, therefore, important that the amounts entered in the ledger should be checked at the time the posting is completed. It is not customary to check all posting at a time later than the posting, unless necessary because the Trial Balance is out of balance. If each amount written in the ledger is compared with the book of original entry as soon as the posting is completed, it may not be necessary to check all the posting.

Erasures. Incorrect amounts recorded in either a book of original entry or the ledger should not be erased. When an amount is erased, there is no means of determining the reason for the change, hence erasures may lead the owner or anyone examining the books to believe that the changes were made by the bookkeeper to defraud the owner. The change should, therefore, be made in such a way that the original entry and the new entry may both be examined and the reason for the change observed.

Correcting the Amount. When an error is made that affects an amount only, it is ordinarily corrected by drawing a line through the incorrect amount and writing the correct figures above it. When the amount is recorded in the book of original entry only, that is, when the correction is made before posting, the amount recorded in the book of original entry is the only one to correct. If the error in the amount is not detected until after posting is completed, it is necessary to write the correct amount in the book of original entry and at once write it in the ledger in the same manner as in the book of original entry.

The method of correcting an amount written in a book of original entry incorrectly is shown in the cash book on page 158. The method of correcting an amount written in the ledger is illustrated in the account with A. R. Jennings on page 161.

Correcting the Account Title. When the wrong account title is stated in a book of original entry and the error is detected before posting, it may be corrected by drawing a line through the amount or amounts, placing a check mark in the folio column and recording the transaction correctly below the last entry recorded. Placing a check mark in the folio column indicates that the amount on this line is not to be posted; drawing a line through the amount or amounts is further warning not to post.

When the entry has been posted to the account as stated in the book of original entry and this is the wrong account, the usual plan is to correct through an entry in the general journal. When an error is made either in the account title, in the amount, or in posting to the wrong account in one fiscal period or month and not detected until a subsequent fiscal period or month, it is customary to make the correcting entry in the general journal.

The illustration at the right shows a check stub which contains specific information regarding the purpose of the check. The check mark at the right of the amount shows that the check has been recorded on the payments side of the cash book.

When checking the entries on the payments side of the cash book with the check stubs and receipts, the bookkeeper found that the transaction had been recorded as in the illustration below and the entry posted as stated.

No. 181
Date June 14 19 ___
Favor of R. M. Norton
For Repairing broken window
Accounts Miscellaneous Expense / Salary Expense
Amount of Check $12.50 ✓

CASH BOOK

					Payments		
19 June	14		Salary Expense	Check No. 181	12	50	

When the above entry is posted, the Salary Expense account will show $12.50 more than was paid for salaries. The illustration below shows the entry necessary to correct this error. When this entry is posted the balance of each expense account will show the correct amount. The check stub should be corrected as in the illustration above.

June 15, 19

Miscellaneous Expense		12	50	
Salary Expense				12 50
To correct error in account debited June 14.				

Errors in Posting to the Wrong Account. There is always a possibility of posting an amount from the purchases journal to a creditor other than the one from whom the purchase was made or in posting from the sales journal to a customer other than the one to whom the sale was made. Errors of this kind may be detected by the customer or creditor, but will not be detected by taking a Trial Balance. When an error in posting is detected, it is customary to draw a line through the wrong entry in the ledger and post the amount correctly.

The method of applying this process for correcting an error is illustrated in the accounts with Central Hotel and M. A. Johnson on page 161. Through error the sale made to M. A. Johnson, October 26, page 157, was posted to the account with the Central Hotel. When the bookkeeper discovered the error, he drew a line through the $44.25 on the debit side of the account with the Central Hotel and posted the amount, $44.25, to the account with M. A. Johnson. This method of making the correction provides in the records full information regarding the error.

If desired, an error in posting to the wrong account may be corrected by an entry in the general journal. If the error is not discovered until a subsequent fiscal period, it should be corrected by an entry in the general journal.

Exercise 71, Correcting Errors

(ORAL OR WRITTEN)

1. May 7. R. L. Baum, a retail florist, received an invoice for flowers from the J B. Milton Co. for $65.85. (a) In what book of original entry will this transaction be recorded? (b) What accounts will be debited and credited?

2. May 15. When the bookkeeper was auditing for payment the invoice mentioned above, he discovered that the amount should have been $63.45. How will this error be corrected (a) if the entry has not been posted? (b) if it has been posted?

3. The following is quoted from a letter received by A. Kahn from J. L. Ray. "Inclosed find check for $32.85 in full for your sales invoice No. 216, $31.50. You will observe there is an error of $1.35 in your favor in the extensions of the third item." (a) What amount was recorded in the sales journal for this sale? How will this error be corrected (b) if the entry has not been posted? (c) if it has been posted? (d) If this error was reported in a subsequent month in what journal would the correcting entry be made?

4. The bookkeeper could not prove cash June 11 because he had recorded a check received from a charge customer for $27.95 as $29.75. How will he correct this error in the cash book?

5. A note received from a charge customer was recorded in the general journal as a debit to the Notes Receivable account for $127.50, the face of the note, and a credit to the account with the charge customer as $125.70. (a) Will this error be detected by the Trial Balance? How will it be corrected (b) if the entry has not been posted? (c) if it has been posted?

6. Allowed James Brown credit for $12.50 merchandise returned. This transaction was recorded as a debit to James Brown and a credit to Purchases. How will this error be corrected (a) if the entry has not been posted? (b) if it has been posted?

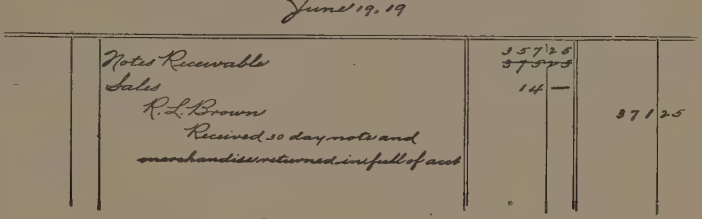
7. A charge sale recorded in the sales journal as $87.65 was posted to the account with a charge customer as $87.25. A check was received from the charge customer for $87.65 and recorded correctly in the cash book. When posting from the cash book, the bookkeeper discovered the error made when posting from the sales journal. How will he correct this error?

8. The information regarding a check as stated on the stub was "For cash purchase". When recording this transaction in the cash book the bookkeeper through error recorded "Smith Bros.", the name of the firm from

whom the purchase was made, instead of "Purchases", the correct title of the account. How will this error be corrected if it is discovered (a) before posting? (b) after posting?

9. Received from L. A. Noe a 60-day 6% interest-bearing note for $125.00 in full of account. This transaction was recorded in the general journal as a debit to the account with L. A. Noe and a credit to the Notes Receivable account. How will this error be corrected if discovered (a) before posting? (b) after posting?

10. The entry at the right appears in the general journal of J. E. Anderson. State the accounts as they would appear if this error was detected (a) before posting; (b) after posting.



ERRORS DETECTED BY THE TRIAL BALANCE

The Trial Balance in Balance. When the Trial Balance balances, it indicates (a) that the addition of the Trial Balance is correct, (b) that the account balances are listed on the Trial Balance as stated in the ledger, and (c) that the sum of the debits in the ledger equals the sum of the credits.

When the Trial Balance does not balance, it indicates an error (a) in the Trial Balance, (b) in the ledger, or (c) in a book of original entry. The error in the Trial Balance may be in addition or in listing the account balances. The error in the ledger may be in addition, subtraction, or in posting. An error in a book of original entry may be in the addition of the purchases or sales journal, or in the general journal through failure to have the debit and credit amounts equal in each entry. The correctness of the cash book entries is proved through the cash proof.

The Trial Balance Out of Balance. When the Trial Balance does not balance, it is necessary to locate the error by a systematic procedure. Nothing can be gained by "looking over" the ledger with the hope of finding the error by accident. Any systematic method of procedure is satisfactory. The following is suggested:

(1) Prove the addition of the Trial Balance.

(2) Examine the account balances on the Trial Balance and be sure that all debit balances are in the left column and credit balances in the right column. Asset and expense account balances and the balance of the Drawing account are usually debits. Liability and income account balances and the balance of the Capital account are usually credits.

(3) Beginning with the last account balance on the Trial Balance, compare it with the account balance in the ledger. Indicate comparison by check marks on the ledger and Trial Balance. When this process is completed,

review the Trial Balance and ledger to ascertain if there are any account balances not checked.

When checking for a specific purpose, check marks should be placed in the same position in the ledger and in the same position on the Trial Balance or journal. This facilitates locating errors through amounts that are not checked. Thus, if the first vertical line at the left of the debit column of the Trial Balance is selected for the checking suggested and all check marks are placed on this vertical line, it will be easy to determine after the checking is completed whether any amount is not checked.

(4) Ascertain the amount of the difference, also one-half of it if the amount is divisible by "2".

(5) Compare the amount of the difference or one-half of it with the amounts recorded in the books of original entry and check the posting of similar amounts. An error of $25.00 may result from posting a debit of $12.50 as a credit or the failure to post a debit or credit item of $25.00.

(6) If the amount of the difference is divisible by "9", it indicates transposed figures. Thus, 36c posted as 63c would result in an error of 27c; $92.00 posted as $29.00 would result in an error of $63.00.

(7) Verify the addition and subtraction necessary to ascertain each account balance. As this is done, verify the equality of debits and credits in the personal accounts which have been ruled during the period under observation. Indicate verification of the account balances by a second check mark at the right of the account balance. When the verification is completed, review the account balances in the ledger to ascertain if there are any account balances which do not have two check marks at the right of them.

(8) Verify the addition of the purchases and sales journals, and the equality of debits and credits in the general journal. The journal entries may be verified by proving each entry or by proving that the total of the debit amounts on each page equals the total of the credit amounts on the same page.

(9) Check the posting from the sales journal, purchases journal, general journal and cash book.

Correcting Errors Detected by the Trial Balance. When an error which affects the equality of the Trial Balance is located, it should be corrected at once. If it is the result of posting, the correction should be made in the ledger by marking out the incorrect amount and posting the correct amount. The account balance should be immediately changed in the ledger and on the Trial Balance. The column of the Trial Balance in which the correction has been made should be re-added and the correct amount entered as the total. This procedure is followed, until the Trial Balance is in balance.

The Check Mark. When auditing to detect errors, a check mark should be used to indicate the audit. The check mark should be large enough to be observed but not so large that it will detract from the appearance of the ledger or books of original entry. The suggested size for check marks and their position in the ledger and books of original entry are shown in the illustration on the opposite page.

SALES JOURNAL ENTRY

May	5	12	James Watson	Avondale	10 days	63	158	70 ✓

ENTRY ON RECEIPTS SIDE OF CASH BOOK

May	15	12	James Watson	On account		58 70 ✓

GENERAL JOURNAL ENTRY

May 25, 19

2	Notes Receivable		100 — ✓	
12	James Watson			100 — ✓
	Received 10-day note in full of acct.			

James Watson Avondale

19 May	5	10 days	J13	158 70 ✓	15		C2	58 70 ✓
					25	10-day note	J1	100 — ✓

Notes Receivable

19 May	25	10 days	J1	100 — ✓				

Exercise 72, Locating and Correcting Errors

(ORAL OR WRITTEN)

1. The footings in the Trial Balance at the right indicate that the Trial Balance is out of balance. (a) What is the amount of the error? (b) Could the error be the result of transposed figures?

8143 79	8143 43

2. The credit balance of an account with a charge customer is $6.85 because the account is over-paid. Through error this amount is entered in the debit column on the Trial Balance. If this is the only error and the total of the debit column of the Trial Balance is $17,461.80, what should the total of the debit and credit columns be after the error is corrected?

3. A. L. Sage, a creditor, was overpaid $3.25. Through error the bookkeeper listed this overpayment in the right column of the Trial Balance. How much will the Trial Balance be out of balance?

4. The Trial Balance is out of balance $42.53, the credit side being the larger. Through error the balance of the Miscellaneous Expense account, $21.40, was entered in the credit column. (a) What effect would this error have on the amount of the error in the Trial Balance? (b) What figures when transposed might cause the error remaining after the first one is corrected?

5. The sum of the debit balances on the Trial Balance exceeded the sum of the credit balances $26.50. The bookkeeper discovered that the error resulted from posting an amount to the wrong side of an account. (a) What was the amount? (b) How was the error corrected?

6. The account in the illustration at the left appears on the ledger of L. B. Hood. (a) Under what conditions would this error affect the Trial Balance? (b) If these conditions exist, how much was the Trial Balance out of balance? (c) How would an error of this nature be corrected?

A. R. BROWN

19 May	7		S	127	53	81	19 May	17		C 24	53	18	

Exercise 73, Working Sheet and Reports

July 1. R. O. Knight invested $2,500.00 in the retail fruit business. At the close of July, the account balances on his ledger, as a result of the transactions completed during the month, are stated in the Trial Balance at the left. Inventories: Merchandise, $1,010.85; Supplies, $55.25. The prepaid insurance is $42.50. The estimated monthly depreciation on equipment is 1%.

R. O. KNIGHT
TRIAL BALANCE, July 31, 19

1	Cash	558 62	
1	Notes Receivable	251 65	
2	Arcade Hotel	62 50	
4	Mrs. L. C. Hunt	68 57	
5	J. L. Dane	61 19	
6	Merchandise Inventory	748 35	
6	Supplies	77 35	
6	Prepaid Insurance	54 —	
7	Equipment	925 —	
8	Excelsior Creamery		227 80
10	Carr Commission Co.		161 75
11	R. O. Knight, Capital		2500 —
12	R. O. Knight, Drawing	112 50	
13	Sales		1975 69
14	Purchases	1735 45	
15	Rent Expense	66 66	
15	Salary Expense	111 50	
15	Miscellaneous Expense	31 90	
		4865 24	4865 24

Instructions: (1) From the account balances on the Trial Balance, the inventories and the depreciation, prepare a Working Sheet; the net profit should be $249.83 and the present proprietorship, $2,637.33.

(2) Prepare a Balance Sheet and a Profit and Loss Statement.

(3) Prepare the adjusting and closing entries.

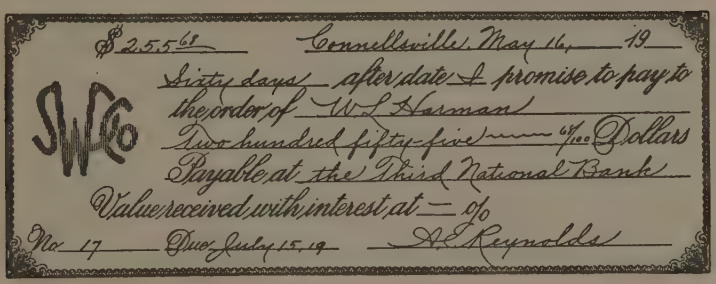
CHAPTER XVII

NOTES RECEIVABLE AND NOTES PAYABLE

The nature of notes receivable and notes payable and the method of recording them are explained in Chapters VI and VII. The following discussion provides a review of the preceding chapters and additional information relative to the use of notes.

A Promissory Note. An unconditional written promise to pay a fixed amount of money at a stated time, signed by the person or persons agreeing to pay it, is referred to as a *promissory note* or a *note.* The one who signs the note is known as the *maker;* the one to whom the note is made payable is the *payee.* The amount stated in the note is the *face value;* the amount due at maturity is the *maturity value.*

The note illustrated below is prepared on a printed form provided for this purpose. The *date* is May 16, the *time* sixty days, *the maker* A. E. Reynolds, the *payee* W. L. Harman, the *face value,* $255.68, the *maturity value* $255.68. This note is made payable at the Third National Bank which indicates that A. E. Reynolds will call at the bank on July 15 and pay the face of the note, $255.68. The number was placed on the note by the maker at the time the note was executed; a stub with a similar number containing full information about the note was retained by him.


$255.68 Connellsville, May 16, 19—

Sixty days after date I promise to pay to the order of W. L. Harman

Two hundred fifty-five ⁶⁸/₁₀₀ Dollars

Payable at the Third National Bank

Value received, with interest at — %

No. 17 Due July 15, 19— A. E. Reynolds

Illustration 46, A Non-interest-bearing Note

Purpose of Notes. Notes are usually issued for one of two purposes:

(1) To secure additional time for the payment of a debt.

(2) As evidence of a loan.

A note received from a customer or issued to a creditor is usually for the purpose of securing additional time for the payment of an account. A note issued to a bank is usually for the purpose of obtaining a loan.

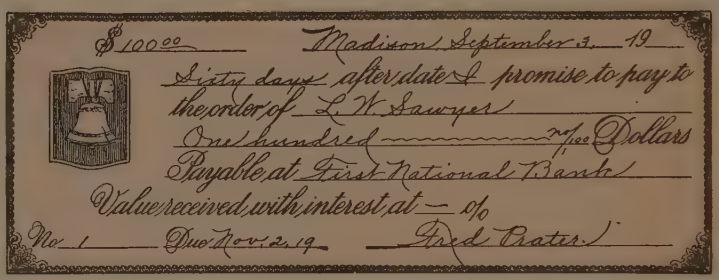
Note and Cash Received from a Charge Customer. When cash and a note are received from a charge customer for a part or all of his indebtedness,

the transaction affects the assets only. The asset cash and the asset notes receivable increase and the asset accounts receivable decreases the same amount as the sum of the two increases in assets.

The note is recorded in the general journal as a debit to the Notes Receivable account and a credit to the account with the charge customer. The cash is recorded in the cash book as a debit to the Cash account and a credit to the account with the charge customer. When the journal entry is posted, the word "Note" is written in the explanation column of the account with the charge customer to indicate the method of settlement.

September 5. L. W. Sawyer received from Fred Prater, a charge customer, a check for $86.95 and note No. 1 for $100.00 in settlement for balance due on account.

The note is illustrated below. The "No. 1" refers to the number of this note in the note receivable register, page 208. This transaction results in an increase in the asset notes receivable, $100.00; an increase in the asset cash, $86.95; and a decrease in the asset accounts receivable, $186.95.


$100.00 Madison, September 5, 19

Sixty days after date I promise to pay to the order of L. W. Sawyer

One hundred 00/100 Dollars

Payable at First National Bank

Value received, with interest at — %

No. 1 Due Nov. 2, 19 Fred Prater

The entry in the general journal to record the receipt of the note is in the illustration at the right. Notes Receivable is debited to record the increase in the asset notes receivable and Fred Prater credited to record the decrease in the asset accounts receivable.

September 5, 19		
Notes Receivable	100	
Fred Prater		100
Received note No. 1 to apply on account.		

The entry in the cash book to record the receipt of cash is:

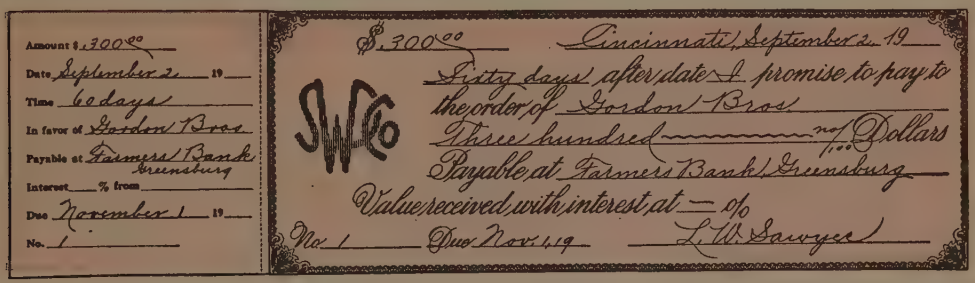
			CASH		Receipts
19 Sept.	5	Fred Prater	In full of account	86	95

When the entries in the general journal and cash book have been posted, the account with Fred Prater will be in balance and the amount of the note will be recorded in the Notes Receivable account. Fred Prater still owes $100.00, but it is now in the form of a written promise as indicated by the entry in the Notes Receivable account.

Note and Cash Given a Creditor. When additional time is desired by the debtor for the payment of a past due account, the creditor will usually require part cash and a note for the balance. When the extension of time is secured under the conditions mentioned in the preceding sentence, the transaction results in a decrease in the asset cash, a decrease in the liability accounts payable and an increase in the liability notes payable. The decrease in accounts payable is the sum of the decrease in cash and the increase in notes payable. The note is recorded in the general journal and the payment of cash, in the cash book.

September 2. L. W. Sawyer gave Gordon Bros., a creditor, note No. 1 for $300.00 and check for $127.55 in full of account, $427.55.

The stub and the note before it was detached are illustrated below. The "No. 1" is the number in the notes payable register, page 208.



Amount $ 300.00
Date September 2 19
Time 60 days
In favor of Gordon Bros
Payable at Farmers Bank Greensburg
Interest % from
Due November 1 19
No. 1

$300.00 Cincinnati, September 2, 19
Sixty days after date I promise to pay to the order of Gordon Bros
Three hundred no/100 Dollars
Payable at Farmers Bank Greensburg
Value received with interest at — %
No. 1 Due Nov. 1 19 L. W. Sawyer

This transaction results in a decrease in the liability accounts payable, $427.55; a decrease in the asset cash, $127.55; and an increase in the liability notes payable, $300.00.

September 2, 19

Gordon Bros.		300	
Notes Payable			300
Gave note No. 1 to apply on account.			

The entry to record the note is in the illustration at the left; the information for this entry is obtained from the stub.

The entry in the cash book to record the payment of cash is:

				CASH	Payments	
19 Sept.	2		Gordon Bros.	In full of account	127	55

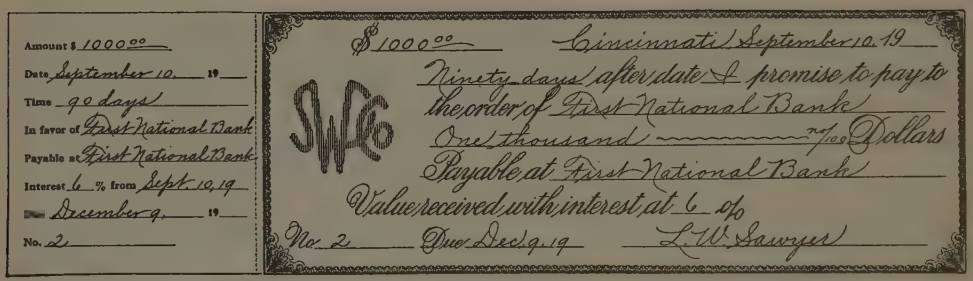
When the entries in the cash book and general journal have been posted, the account with Gordon Bros. will be in balance and the amount of the note will be recorded in the Notes Payable account. L. W. Sawyer still owes Gordon Bros. the amount of the note, but the indebtedness is recorded in the Notes Payable account because it is now in the form of a written agreement.

Borrowing Money from the Bank. When money is borrowed from a bank and the borrower issues his note as evidence of the loan, the transaction results in an increase in the asset cash and an increase in the liability notes payable. The borrower will be required to pay for the use of the money either at the time the loan is made or at maturity.

The borrower usually leaves the money borrowed on deposit with the bank, subject to check. The amount which the borrower receives or which is placed to his credit is usually referred to by him as the *proceeds of the loan.* When the borrower pays the interest at maturity, the amount of the proceeds is the face of the note; when he pays the interest in advance, the amount of the proceeds is usually the face of the note less the interest.

> September 10. L. W. Sawyer borrowed $1,000.00 from the First National Bank on his 90-day 6% interest-bearing note. Received credit for the proceeds, $1,000.00.

The illustration below shows the note and stub. The record of this note in the notes payable register is on page 208. The transaction increases the asset cash and the liability notes payable the face of the note.



Amount $ 1000.00
Date September 10 19
Time 90 days
In favor of First National Bank
Payable at First National Bank
Interest 6 % from Sept. 10, 19
Due December 9, 19
No. 2

$1000.00 Cincinnati, September 10, 19
Ninety days after date I promise to pay to the order of First National Bank
One thousand ~~~~~ 00/100 Dollars
Payable at First National Bank
Value received, with interest at 6 %
No. 2 Due Dec. 9, 19 L. W. Sawyer

The entry in the cash book to record this transaction is:

				CASH		Receipts		
19 Sept.	10		Notes Payable	Proceeds of note No. 2		1000		

When this entry has been posted, the Notes Payable account will be credited with $1,000.00, thus recording the liability on the ledger.

A Non-interest-bearing Note. When the note requires the maker to pay only the face at maturity it is referred to as a *non-interest-bearing note.* No reference to interest in the note always indicates that it is non-interest-bearing. If space is provided for the rate of interest on the note and the note is non-interest-bearing, the better plan is to write "no" or draw a line in the space for interest, as in the notes on pages 198 and 199. This avoids the possibility of changing the note after it is issued. The face value and maturity value of a non-interest-bearing note are always the same.

An Interest-bearing Note. When the note requires that the maker pay the face and interest at maturity, it is referred to as an *interest-bearing*

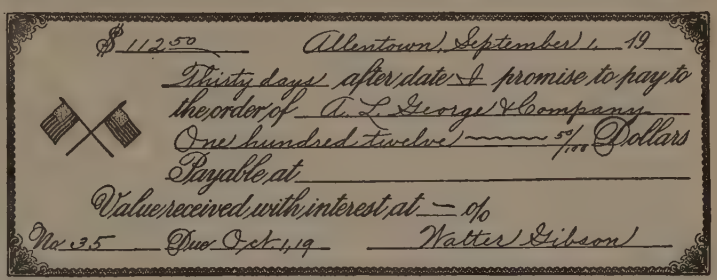
note. The rate of interest should always be stated to avoid any possible misunderstanding regarding the amount of interest. This is true even though the *legal* rate (rate fixed by law) of interest is to be collected. Thus, in the note on page 200 the statement "With interest at 6%" indicates that L. W. Sawyer, the maker, has promised to pay $1,015.00 at the maturity of the note, $1,000.00 the face of the note and $15.00 interest.

When a note is received, the face value is recorded as a debit to the Notes Receivable account whether it is interest-bearing or non-interest-bearing. The method of recording notes whether interest-bearing or non-interest-bearing when received at a value other than the face value is explained in a succeeding chapter.

Exercise 74, Notes Receivable and Notes Payable

(ORAL OR WRITTEN)

1. The note illustrated at the right and cash were received September 1 in full for the past due account shown below the note. (a) On whose ledger does this accounts receivable account appear? (b) How much is the past due balance? (c) How much cash was received? (d) As bookkeeper for the payee, in what books of original entry would you record the cash and the note? (e) What accounts would you debit? (f) Credit? (g) Why?



WALTER GIBSON

19							19				
July	12	30 days	S27	141	50		Aug.	12		C4	50
	28	20 days	S65	119	35			20		C6	75
Aug.	6	60 days	S98	205	25						

2. "October 1. J. L. Boggs, a retail merchant, paid the account illustrated at the left with a check for $200.00 and a 60-day note for the balance." (a) What is the face of the note? (b) Who will be the payee? (c) The maker? (d) As bookkeeper for Mr. Boggs, in what books of original entry will you record the transaction? (e) What account is debited? (f) What accounts are credited?

STRICKLAND BROS.

19						19					
Sept.	1		J12	25	80	Aug.	17		P16	138	25
	20		C10	125		Sept.	25		P18	254	36

DALTON

3. "August 13. J. A. Saul borrowed $2,000.00 from the City Bank on his 60-day, 6% interest-bearing note. Received credit for $2,000.00, the face of the note." (a) How will this transaction be recorded by Mr. Saul? (b) When will the note mature? (c) How much will J. A. Saul pay the bank at maturity?

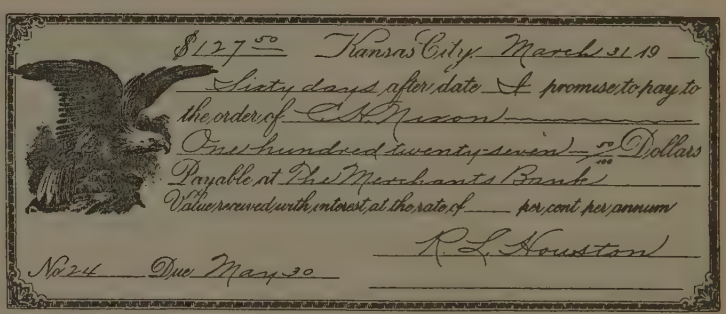
4. "May 3. R. H. Boles received from W. O. Duncan a 60-day, 6% interest-bearing note for $125.00 and cash $52.50 in full of account, $177.50." (a) How will this transaction be recorded by the payee? (b) When does the note mature? (c) What amount will W. O. Duncan pay at maturity?

5. "March 12. Martin Bros. received from L. C. Aul a 60-day, 6% interest-bearing note for $400.00 and a check for $125.35 in full of account, $525.35." (a) How will this transaction be recorded by the payee? What effect does it have on (b) the assets of the payee? (c) the liabilities? (d) What is the maturity date of the note? (e) How much will the payee collect at maturity?

Collecting Notes Receivable. The maker of a note promises to pay the amount stated in the note to the payee at maturity. If the payee holds the note until maturity, he should notify the maker a few days before maturity so that the maker may be prepared to pay the note. If the payee transfers the note to another before maturity, the one to whom it is transferred, usually referred to as the *holder*, should notify the maker before maturity.

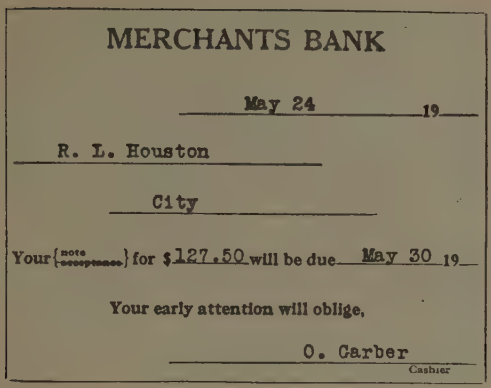
The holder of a note receivable usually collects it through a bank, either the one at which he does business or the one at which the maker has made it payable. The note is left with the bank a few days before maturity so that the maker may be notified and through this notice know when and where to pay the note. The collecting bank notifies the maker before maturity of the note. When the maker pays the note, the collecting bank notifies the holder that it has been collected. If the holder is a depositor of the bank, he receives credit in his account for the amount collected; if not a depositor, he will receive a bank draft or cashier's check for the amount collected.

May 20, the payee of the note shown below, transferred the note to the Merchants Bank at which it is payable for collection. The indorsement was "Pay to the order of Merchants Bank, For collection, C. H. Nixon."


$127.50 Kansas City, March 21 19__
Sixty days after date I promise to pay to
the order of C. H. Nixon
One hundred twenty-seven 50/100 Dollars
Payable at The Merchants Bank
Value received with interest at the rate of __ per cent per annum
R. L. Houston
No 24 Due May 20

This is not a transaction, hence no entry is required. If the notes are recorded in a note register as illustrated at the conclusion of this chapter, a notation of the disposition of the note is made in the register.

The notice at the left in the illustration at the top of page 203 was mailed by the bank to the maker of the note before the maturity of the note. The notice at the right in the illustration at the top of page 203 was mailed to C. H. Nixon by the bank after the collection had been made.



MERCHANTS BANK

May 24 19

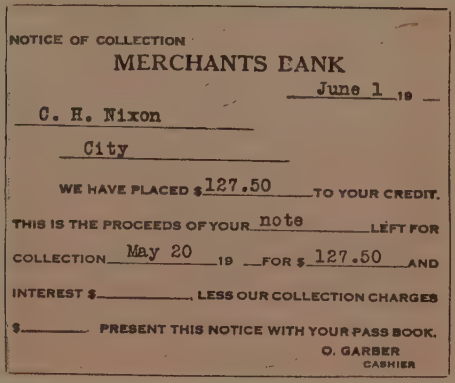
R. L. Houston

City

Your {note / acceptance} for $127.50 will be due May 30 19

Your early attention will oblige,

O. Garber
Cashier



NOTICE OF COLLECTION

MERCHANTS BANK

June 1 19

C. H. Nixon

City

WE HAVE PLACED $127.50 TO YOUR CREDIT.

THIS IS THE PROCEEDS OF YOUR note LEFT FOR

COLLECTION May 20 19 FOR $127.50 AND

INTEREST $_____, LESS OUR COLLECTION CHARGES

$_____. PRESENT THIS NOTICE WITH YOUR PASS BOOK.

O. GARBER
CASHIER

Receiving credit at the bank for $127.50 (see notice above) is to C. H. Nixon a transaction in which the asset cash is increased and the asset notes receivable decreased the amount of the collection.

The entry to record this transaction in the cash book is:

				CASH	
					Receipts
19					
June	1	Notes Receivable	R. L. Houston note		127 50

Collection Charges on a Note. Banks usually make no charge for collecting a note for a depositor. Banks do, however, make a collection charge when a note is collected for a non-customer. The collection charge is deducted from the amount collected. This means that in the case of a non-interest-bearing note the holder would receive less than the face of the note if the collecting bank charged for collecting it.

The collection of a note when the holder receives the face of the note is an exchange of one asset for another. When the holder receives less than the face of the note as the result of a collection charge, the difference between the face value and the amount received is an expense usually referred to as *collection expense.*

The payment of collection charges for collecting a note requires a record of the expense. There are a number of methods which may be used for recording this expense but only the most common is illustrated here. In this method, the transaction is recorded in the general journal and the cash in the cash book.

In the general journal entry Cash is debited to record the increase in the asset cash, Collection Expense is debited to record the increase in expense because of collection charges, and the Notes Receivable account is credited to record the decrease in the asset notes receivable. The amount of cash collected is recorded on the receipts side of the cash book. Check marks are used to avoid double posting to Cash and Notes Receivable accounts.

Recording Collection Expense. May 9. C. H. Nixon received a bank draft and the notice in the illustration at the right because of the collection of a note, as described in the notice. The face value of this note, $217.50, is a debit in the Notes Receivable account on his ledger. This transaction results in a decrease in the asset notes receivable $217.50, an increase in the asset cash $216.85, and an increase in the expense 65c because of collection charges.

ATLAS NATIONAL BANK

Cleveland, May 8 19..

PLEASE NOTE THAT COLLECTIONS HAVE BEEN MADE AS FOLLOWS:

DATE	NAME AND ADDRESS	AMOUNT	CREDIT
May 8	J. M. May, Cleveland	217.50	216.85

Chicago draft for $216.85 inclosed.

To C. H. Nixon,
Chicago

ALL ITEMS CREDITED SUBJECT TO FINAL PAYMENTS

The general journal entry at the left and the cash book entry below record the transaction. The check marks in the folio columns are to avoid double posting to the Cash and Notes Receivable accounts. When the entries not checked have been posted, the Notes Receivable account will be credited for the face of the note and the Collection Expense account debited for the collection charges.

May 9, 19

√	Cash		216 85		
	Collection Expense		65		
	Notes Receivable			217 50	
	Proceeds of J. M. May note.				

CASH

					Receipts	
May	9	√	Notes Receivable	Proceeds of J. M. May note	216	85

The Collection Expense Account is a record of the increase in expense because of collection charges paid collecting agents.

This account is *debited* for the increases in collection expense.

The *debit* balance of this account shows the total collection expense and is closed into the Profit and Loss Summary account.

When the bank charges for collecting out-of-town checks, the deduction made from the deposit because of these collection charges is usually regarded as a collection expense and recorded in the Collection Expense account.

Renewal of a Note Receivable. When the maker of a note receivable desires an extension of time for a part or all of the note, it is customary to require a new note for the amount on which the extension of time is granted. When cash is collected for part of the note and a new note received for the balance, the transaction results in an increase in the asset cash for the amount of money received, an increase in the asset notes receivable for the face of the new note, and a decrease in the asset notes receivable for the face of the old note. When the new note received is for the same amount as the old note,

the nature and amount of the assets do not change but the renewal of the note should be recorded as a debit and credit to the Notes Receivable account.

November 12. C. H. Nixon received from Walter Meyers $50.00 in cash and note No. 27 for $122.50 in settlement for note No. 14, face value $172.50.

This transaction affects only the assets. The numbers refer to the note register numbers. The general journal entry at the right and the cash book entry below record the transaction. The debits record the increases in assets and the credit, the decrease in assets. Check marks are used to avoid double posting.

November 12, 19

√	Cash	50 —		
	Notes Receivable	122 50		
	Notes Receivable		172	50
	Renewal of note No. 14			

CASH — Receipts

19					
Nov.	12	√	Notes Receivable	Part payment, Note No. 14	50 —

When these entries are posted, the face of the old note recorded in the Notes Receivable account will be canceled through the credit entry and the face of the new note will be recorded through the debit entry.

November 26. C. H. Nixon received from E. L. Hammer note No. 28 for $195.75 to renew note No. 16 for $195.75.

This transaction does not change any account balance but the new note should be recorded because of the extension of time. The entry in the illustration at the left shows the method of recording the new note and canceling the old note.

November 26, 19

Notes Receivable	195 75		
Notes Receivable		195	75
Renewed note No. 16			

Renewal of a Note Payable. This refers to an extension of time for the payment of a part or all of a note payable. When a part of a note payable is paid at maturity and the balance renewed with a new note, the transaction results in a decrease in the asset cash for the amount of cash paid, a decrease in the liability notes payable for the face of the old note, and an increase in the liability notes payable for the face of the new note. When an extension of time is for the face of a note payable, the transaction does not change any account balance but should be recorded because of the extension of time.

December 1. C. H. Nixon gave the City National Bank check for $200.00 and note No. 22 for $300.00 in settlement for note No. 15, $500.00.

This transaction affects the assets and liabilities. The numbers refer to entries in the note register. The general journal entry at the right and the cash book entry below record the transaction. Check marks are used to avoid double posting to the Cash and Notes Payable accounts.

December 1, 19 — PAGE 11

		Notes Payable	500 —	
	√	Cash		200 —
		Notes Payable		300 —
		Gave check for $200.00 and note No. 22 in settlement for note No. 15.		

CASH — Payments

19					
Dec.	1	√	Notes Payable	Note No. 15; see journal, page 11	200 —

When these entries are posted, the old note will be canceled through the debit entry and the face of the new note will be recorded through the credit entry.

December 15. C. H. Nixon renewed note No. 16 for $600.00 with note No. 23 for the same amount.

This transaction does not change any account balance but the new note should be recorded because of the extension of time. The entry in the illustration at the left shows the method of recording the new note and canceling the old one. The numbers stated in the transaction and in the explanation refer to the numbers in the notes payable register.

December 15, 19

Notes Payable	600 —		
Notes Payable		600 —	
Renewed note No. 16 with note No. 23.			

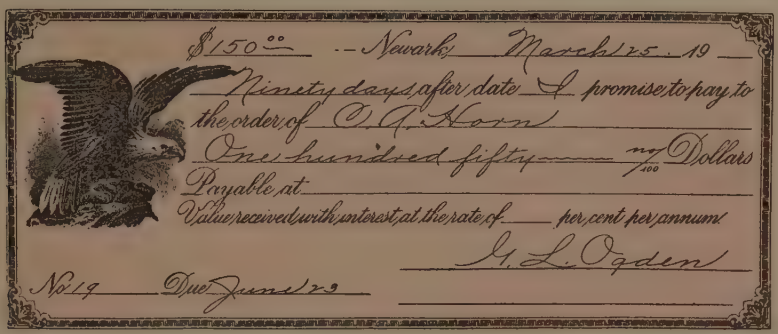
The method of recording interest when notes are collected, paid, or renewed is not included in the foregoing discussion of notes. This subject is explained in the next chapter.

Indorsement of Notes. A note may be indorsed (a) to transfer the title, (b) as security, (c) for part payment, and (d) for collection. Indorsements are written on the back in the same manner as the indorsements on checks. An indorsement for security may be written on the face under the name of the maker provided the surety writes "surety" after his name.

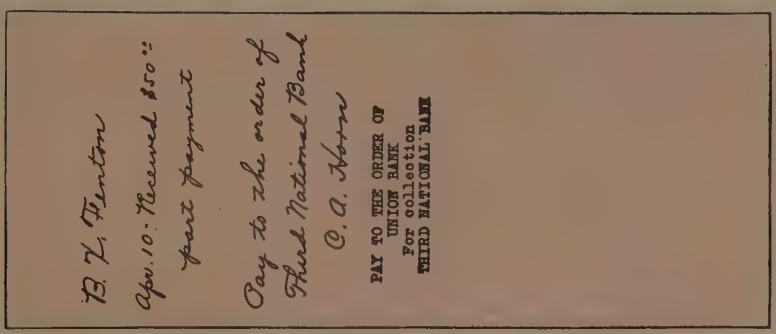
An indorsement to transfer the title may be made in blank or in full. An indorsement for security is usually made in blank. An indorsement for part payment contains the date and amount of the payment; no name should appear in connection with this indorsement because it might be interpreted as surety. An indorsement for collection includes "for collection" or "for collection and credit", the name of the collecting agent and the one for whom

the note is collected. Each indorser for transfer of title on a note is responsible for payment unless *without recourse* appears in connection with his indorsement.

The illustration below shows the face of a note on the date of issue.



The illustration below shows the back of the above note when it was returned to the maker. The first indorsement is for surety; the second, receipt for part payment; the third, for transfer; and the fourth, for collection.



A Dishonored Note Receivable. When the maker of a note refuses to pay or renew it at maturity, the note is said to be *dishonored.* When a note is dishonored, the maker is not relieved from the responsibility of paying it. To the holder, a dishonored note is an asset and will remain as an asset until it is collected or charged off as a *bad debt.*

The asset value of the dishonored note may be allowed to remain in the Notes Receivable account, it may be transferred to an account with dishonored notes or it may be transferred to the account with the charge customer. The only purpose in transferring it would be to have the Notes Receivable account show only the asset value of notes not yet due.

The illustration below shows the entry required to transfer the amount of a dishonored note from the Notes Receivable account to the account with the charge customer

December 4, 19

L. C. Spence		350 —	
Notes Receivable			350 —
Dishonored note due today.			

from whom it was received. The debit to the account with the charge customer records the increase in the asset accounts receivable, and the credit to the Notes Receivable account, the decrease in the asset notes receivable.

When this entry is posted, "Dishonored note" will be written in the explanation of the account with L. C. Spence, and "L. C. Spence" in the explanation of the Notes Receivable account. The dishonored note is retained by the holder as evidence of the debit to the account with the charge customer.

When there are indorsers on a dishonored note, it should be protested in the same manner as for a dishonored check as explained on page 185. The method of recording a dishonored note, which has been protested in order to hold the endorsers, and recording the protest fee is explained and illustrated in a subsequent chapter.

Note Register. The Notes Receivable account contains a record of all the notes receivable and the Notes Payable account, the notes payable. When the transactions with notes receivable and notes payable are numerous, it is customary to maintain a supplementary record of these notes in registers for notes receivable and for notes payable. The title of each register indicates the nature of the notes recorded in it.

The ruling in each register provides full information regarding each note on one horizontal line. This information includes not only that pro-

NOTES RECEIVABLE REGISTER

DATE RECEIVED		OUR No.	MAKER	PAYEE AND ENDORSER	WHERE PAYABLE	PURPOSE
'9 Sept.	5	1	Fred Prater	L. W. Sawyer	First Natl. Bank, Madison	On account
	10	2	U. L. Cord	W. N. Moore	First Natl. Bank, City	Sale of Aug. 10
	18	3	J. A. Martin	L. W. Sawyer	Union Bank, Clinton	Sale of Aug. 12
	25	4	B. A. Kerr	A. O. Brooks	Farmers Bank, Hamilton	On account
	30	5	D. C. Allen	L. W. Sawyer	Merchants Bank, City	In full of account

Illustration 47, Notes Receivable Register (Left Page)

NOTES PAYABLE REGISTER

DATE ISSUED		OUR No.	PAYEE	ADDRESS	WHERE PAYABLE	PURPOSE
'9 Sept.	2	1	Gordon Bros.	Greensburg	Farmers Bank, Greensburg	Purchase of Aug. 1
	10	2	First Natl. Bank	City	First Natl. Bank, City	Loan
	15	3	L. B. Gore & Co.	Canton	Merchants Bank, Canton	In full of account
	23	4	P. M. Olson	Arlington	Arlington Bank & Trust Co.	Purchase of July 25
	30	5	First Natl. Bank	City	First Natl. Bank, City	Loan

Illustration 48, Notes Payable Register (Left Page)

vided at the time the note is received or issued but all facts regarding the note receivable and note payable until collected or paid.

The Notes Receivable Register in the illustration contains a record of the five notes received by L. W. Sawyer during the month of September. The first entry is for the note illustrated on page 198. The other entries were made from notes similar to this. Full information regarding each note is recorded on one horizontal line. All of the vertical columns are filled out at the time the note is received except the two at the extreme right; the entries in these columns are made at maturity or at the time the note is sent to the collecting bank for collection.

Each note is recorded in the note register at the time it is received and the number of the note register used in describing the note when recording in the book of original entry and when collecting. The note register number may be entered on the note if desired.

The Notes Payable Register at the bottom of page 208 and this page contains a record of the five notes issued by L. W. Sawyer during the month of September. The first and second entries are the notes illustrated on pages 199 and 200. When the notes payable register is used, it is not necessary to provide information regarding the note on the stub as in the illustrations.

NOTES RECEIVABLE REGISTER

DATE OF PAPER YEAR	MONTH	DAY	TIME	MATURITY	FACE VALUE		RATE OF INT	MATURITY VALUE		DATE COLLECTED	REMARKS
19	Sept.	3	60 days	Nov. 2	100	—		100	—		
19	Sept.	10	30 days	Oct. 10	251	50	6%	252	76		
19	Sept.	16	10 days	Sept. 26	216	40		216	40	Sept. 28, 19	Sent to Union Bank for collection Sept. 25
19	Sept.	21	3 mos.	Dec. 21	335	80	6%	340	84		
19	Sept.	30	30 days	Oct. 30	175	65	6%	176	53		

Illustration 47, Notes Receivable Register (Right Page)

NOTES PAYABLE REGISTER

DATE OF PAPER YEAR	MONTH	DAY	TIME	MATURITY	FACE VALUE		RATE OF INT.	MATURITY VALUE		DATE PAID	REMARKS
19	Sept.	2	60 days	Nov. 1	300	—		300	—		
19	Sept.	10	90 days	Dec. 9	1000	—	6%	1015	—		
19	Sept.	15	10 days	Sept. 25	165	80		165	80	Sept. 25, 19	Check No. 47
19	Sept.	23	60 days	Nov. 22	426	95	6%	431	22		
19	Sept.	30	90 days	Dec. 29	1000	—		1000	—		Int. 6% paid in advance

Illustration 48, Notes Payable Register (Right Page)

Exercise 75, Notes Receivable and Payable

(ORAL OR WRITTEN)

You may assume that each of the following transactions were completed in the operation of your own business.

1. May 14. Gave Paul Green check for $137.50 and note No. 60, face value $200.00, in full of account, $337.50. (a) What effect does this transaction have on your liabilities? (b) State the entries to record the note and the cash paid. (c) Would a stub be necessary on the note if a notes payable register is maintained? (d) Why?

2. May 23. Received from R. L. Gold check for $37.75 and note No. 42, face value $50.00, in settlement of account. (a) What effect does this transaction have on your assets? (b) State the entries to record the note and the cash.

3. May 16. Received credit at the bank for $1,000.00, proceeds of note No. 45, face value $1,000.00, interest rate 6%. (a) What effect does this transaction have on your assets, liabilities and expense? (b) State the entry to record this transaction.

4. "We have credited your account with $250.00, collection of your note No. 37, face value $250.00." This quotation is from a notice received from the bank. (a) What effect does this transaction have on your assets? (b) How is the transaction recorded?

5. "We have credited your account with $495.00, proceeds of collecting your note No. 75, face value $496.00." (a) What effect does this transaction have on your assets and expense? (b) How is the note recorded? (c) How is the cash received recorded?

6. "Received note No. 75, face value $200.00, to renew note No. 52, face value, same amount." (a) How does this transaction affect your assets? (b) How is it recorded?

7. Received from James Sloan check for $50.00 and note No. 32, face value $100.00, in settlement for note No. 18, face value, $150.00. (a) What effect does this transaction have on the assets? (b) How is it recorded?

Exercise 76, Recording Notes Receivable and Payable

Record each of the following transactions in the cash book or cash book and general journal as required:

1. May 7. Received from O. L. Taylor note No. 27, face value $87.50, in full of account.

2. October 5. Received cash, $125.00, from J. L. Jordan in full for note No. 18, due today.

3. November 10. Received credit at the First National Bank for $200.00, face of our interest-bearing note No. 22.

4. May 4. Gave C. W. Powers a check for $50.00 and note No. 31, face value $250.00, in settlement for note No. 19.

5. June 16. Received from James Dailey check for $25.00 and note No. 29, face value $75.00, in settlement for note No. 20.

6. October 21. Received from the Traders Bank a cashier's check for $199.40 for note No. 76, face value $200.00, left with this bank for collection.

7. March 11. Gave L. C. Hauck a check for $116.50 and note No. 42, face value $100.00, for note No. 27, face value $216.50.

8. February 17. Received from B. A. Davy check for $16.50 and note No. 44, face value $83.50, in settlement for note No. 28, face value $100.00.

9. March 3. Gave the City National Bank a check for $300.00 in payment for note No. 52.

10. September 25. Charged D. A. Long with $125.50, face of note No. 63, dishonored by the maker.

Exercise 77, Working Sheet and Reports

The Trial Balance in the illustration at the right was prepared from the ledger of J. L. Bronson at the close of the fiscal year ending June 30. The inventories are as follows: merchandise, $11,594.55; supplies, $125.05; prepaid insurance, $264.46. The equipment is depreciated 5%. From the account balances and the facts stated regarding the inventories and depreciation prepare (a) a Working Sheet, (b) Balance Sheet, (c) Profit and Loss Statement, and (d) adjusting and closing entries. The net profit should be $4,938.84 and the present capital $16,838.84.

J. L. BRONSON
TRIAL BALANCE, June 30, 19

1	Cash	11,333	65		
2	Notes Receivable	1,696	71		
3	Accounts Receivable	7,562	90		
3	Merchandise Inventory	2,346	95		
4	Office Supplies	630	40		
5	Prepaid Insurance	902	30		
6	Equipment	970	—		
6	Depreciation Reserve			97	—
7	Notes Payable			8,000	—
8	Accounts Payable			8,562	98
9	J. L. Bronson, Capital			12,500	—
9	J. L. Bronson, Drawing	600	—		
10	Sales			32,265	33
11	Purchases	29,431	65		
12	Rent Expense	2,200	—		
12	Salary Expense	3,000	—		
13	Miscellaneous Expense	750	75		
		61,425	31	61,425	31

CHAPTER XVIII

INTEREST EXPENSE AND INTEREST INCOME

Interest is a service for which money is paid or collected for the use of money. The discussion in this chapter relates to interest as an expense and interest as an income.

Interest. Businesses frequently find it necessary to borrow money to finance their operations. They are required to pay for the use of this money the same as they are required to pay rent for the use of a building. The amount of the charge is expressed as a per cent of the amount borrowed and is known as *interest.* Interest at six per cent means that a charge of six cents is made for each dollar borrowed for one year. The payment of money by the business for interest causes a decrease in proprietorship, usually referred to as *interest expense.* The receipt of money for interest causes an increase in proprietorship, usually referred to as *interest income.*

Interest on Notes Payable. When a note payable is issued and the maker agrees to pay interest for the use of the money, the interest may be paid in advance, that is, on the date of the note, or it may be paid at maturity. When the maker pays interest in advance, he issues a non-interest-bearing note; when he is to pay interest at maturity, he issues an interest-bearing note.

At maturity the maker of an interest-bearing note will be required to pay more than the face of the note because of the promise to pay interest. The payment of an interest-bearing note, results in a decrease in the asset cash for the amount of cash paid, a decrease in the liability notes payable for the face of the note, and a decrease in proprietorship (increase in expense) for the difference between the cash paid and the face of the note. This effect is recorded as a debit to the Notes Payable account, a debit to the Interest Expense account, and a credit to the Cash account.

> December 1. D. C. Barnes issued a check for $2,525.00 in payment for note No. 37, face $2,500.00, and interest $25.00, due today.

This transaction decreases the asset cash $2,525.00, decreases the liability notes payable $2,500.00, and increases the expense $25.00. The entry to record this transaction in the cash book is:

					Cash	Payments
19						
Dec.	1		Notes Payable	Note No. 37	2500 —	
	1	214	Interest Expense	Interest on note No. 37	25 —	

When these two entries are posted, the Notes Payable account will be in balance and the Interest Expense account will show a debit balance of $25.00. The posting to the Interest Expense account is shown on page 214.

A Bank Loan. When a non-interest-bearing note is issued to a bank as evidence of a loan, the borrower either pays the interest with cash and receives cash or credit in his account for the face of the note, or the interest is deducted through his receiving cash or credit in his account for the face of the note less the interest. In either case the final effect of the transaction is an increase in the asset cash, an increase in the liability notes payable, and an increase in the expense for the amount of the interest paid or deducted.

December 5. D. C. Barnes received credit at the bank for $1,776.00, the proceeds of note No. 38, face $1,800.00, discount $24.00.

This transaction increases the assets $1,776.00, increases the expense $24.00, and increases the liabilities $1,800.00.

The general journal entry at the right and the cash book entry below record the effect on assets, liabilities and expense. Check marks are used to avoid double posting. The posting to the Interest Expense account is on page 214.

		December 5, 19		PAGE 213
	√	Cash	1776 —	
	214	Interest Expense	24 —	
		Notes Payable		1800 —
		Gave bank 60-day non-interest-bearing note and received credit for proceeds.		

CASH — Receipts

19					
Dec.	5	√	Notes Payable	Proceeds of loan; J 213	1776 —

A transaction in which a person borrows money from a bank on his own note is sometimes referred to as *discounting a note payable.* This term is used to distinguish the loan from the discounting of a note receivable explained in a subsequent chapter.

Interest on Accounts Payable. Some firms collect interest on past due accounts while others require interest only on notes. When the owner of a business is required to pay interest on past due accounts, the interest paid will be an expense the same as that paid on notes. The asset cash decreases the amount of cash paid, the liability accounts payable decreases the amount of the account, and the interest expense increases the amount of the interest which is the difference between the cash and the account balance.

December 10. D. C. Barnes, gave W. J. Ferguson, a creditor, a check for $217.94 in payment for balance due him, $216.55, and interest, $1.39.

This transaction decreases the liabilities $216.55, increases the expenses $1.39, and decreases the assets $217.94.

The entry to record this transaction in the cash book is:

CASH

					Payments
19					
Dec.	10		W. J. Ferguson	In full of account	216 55
	10	214	Interest Expense	Interest on balance past due	1 39

Interest Included in a Note. When a note is given a creditor in payment for a past due account balance and interest, the transaction results in an increase in the liability notes payable for the face of the note, a decrease in the liability accounts payable for the balance of the account, and an increase in the interest expense for the interest which is the difference between the account and the face of the note.

December 11. D. C. Barnes gave U. L. Duggan note No. 39, face $316.65, in settlement of account, $314.48, and interest on the account, $2.17.

This transaction affects the liabilities and expense. The entry in the general journal to record this effect is in the illustration at the right. The debit to the Interest Expense account records the increase in expense because of issuing a note for a greater amount than the account.

December 11, 19

	U. L. Duggan		314 48	
214	Interest Expense		2 17	
	Notes Payable			316 65
	Gave note No. 39, face $316.65 in settlement of account, $314.48, and interest, $2.17.			

The illustration at the left shows the Interest Expense account resulting from posting the interest expense recorded in the books of original entry on pages 212, 213, and 214. The first and third entries record an increase in interest expense because the assets decrease more than the liabilities decrease. The second entry records an increase in interest expense because the liabilities increase more than the assets increase. The fourth entry records an increase because the liabilities increase more than the liabilities decrease. In other words, the Interest Expense account is debited for all increases in interest expense.

INTEREST EXPENSE

19					
Dec.	1	C	212	25 —	
	5	J	213	24 —	
	10	C	214	1 39	
	11	J	214	2 17	

Exercise 78, Interest Expense

(ORAL OR WRITTEN)

1. Issued check No. 107 for $252.50 in payment for note No. 86, face $250.00. What effect does this transaction have on (a) the assets? (b) the liabilities? (c) the expense? (d) How is this transaction recorded?

2. Gave Ames Bros. check for $201.50 in payment of account, $199.50, and interest on past due balance, $2.00. What effect does this transaction have on (a) the assets? (b) the liabilities? (c) the expense? (d) How is it recorded in the cash book?

3. Gave the bank note No. 47, face $500.00, and a check for $5.00 to renew note No. 35 and to pay the interest on it. (a) What effect does this transaction have on the assets, liabilities and expense? (b) How is it recorded?

4. Gave James Mann check for $204.50 and note No. 62 for $200.00 in settlement of account, $401.25, and interest on past due account and note to maturity, $3.25. What effect does this transaction have on (a) the assets? (b) the liabilities? (c) the expense? (d) How is it recorded?

Exercise 79, Notes Payable and Interest Expense

Record the following transactions completed by A. L. Hoff in the general journal, cash book and notes payable register.

1. July 7. Gave the Union Bank a 90-day non-interest-bearing note for $2,000.00. Issued check for $40.00 in payment of the interest at 8% and received credit for the face of the note. Record in the register as note No. 40.

2. July 26. Gave A. Kahn a 60-day non-interest-bearing note for $350.00, payable at Merchants Bank, and a check for $62.50 in payment for the balance of the account, $407.83, and interest on the note at 8%, $4.67.

3. August 3. Gave D. L. Young a check for $105.25 and a 30-day 6% interest-bearing note, face $200.00, payable at City National Bank, in full of account, $303.57, and interest on account, $1.68.

4. September 1. Gave J. L. Blue a check for $66.97 and a 90-day 6% interest-bearing note for $350.00, payable at Merchants Bank, in full of account, $416.97.

5. September 2. Gave D. L. Young a check for $201.00 to pay note No. 42 due today and interest, $1.00.

6. October 5. Gave Union Bank a check for $1,000.00 and a 60-day 6% interest-bearing note for $1000.00 in payment for note No. 40 issued July 7.

Exercise 80, Interest on Notes and Accounts

Record the following transactions in the general journal and cash book.

1. June 28. Gave Carroll Bros. a check for $56.75, a 30-day non-interest-bearing note for $200.00, a 60-day non-interest bearing note for $150.00, and a 90-day non-interest-bearing note for $100.00, for balance due on account, $501.42, and interest on the notes, $5.33. Record the face of each note separately. Why?

2. August 4. Gave the Third National Bank a check for $350.25 and a 90-day non-interest-bearing note for $1,200.00, in payment for a 90-day 7% interest-bearing note for $1,500.00 and interest $26.25, due today, and interest at 8% on the new note.

3. July 6. Gave Simms Bros. a 60-day 6% interest-bearing note for $256.68 in settlement for a past due account of $255.40 and interest for 30 days at 6%, $1.28.

4. September 4. Gave a check to the Third National Bank for $259.25 in payment for note issued July 6, face $256.68, and interest $2.57.

5. June 12. Gave O. C. Upton check for $771.25 in full of account, $762.50, and interest on account, $8.75.

INTEREST INCOME

Interest on Notes Receivable. Interest is usually collected by a business at the maturity of an interest-bearing note receivable. When cash is received for an interest-bearing note receivable, the amount of cash received is more than the face of the note because of the interest. The collection of an interest bearing note affects the assets and income; the income (proprietorship) increases the same amount as the assets increase which is the difference between the face of the note and the cash collected. The increase in income is referred to as *interest income.*

April 19. J. H. Baron received a check for $505.00 for note No. 44, face $500.00 and interest, $5.00.

This transaction increases the asset cash $505.00, decreases the asset notes receivable $500.00, and increases the proprietorship $5.00. The entry to record this transaction in the cash book is:

				CASH	Receipts	
19						
April	19		Notes Receivable	60-day note, due today	500	—
	19	218	Interest Income	Interest on above note	5	—

Interest on Daily Bank Balance. Some banks allow interest on the daily bank balance when the depositor maintains an average daily balance above a certain amount. When interest is allowed, the depositor will receive monthly notice of the amount. A notice of the amount of credit given for interest indicates an increase in the asset cash for the amount of the interest and a corresponding increase in proprietorship. This effect is recorded as a debit to the Cash account and a credit to the Interest Income account. The amount of the credit is added to the bank balance shown on the check stub.

April 25. J. H. Baron received notice from the bank that his account had been credited with $25.50 interest on his daily bank balance.

This transaction increases the proprietorship (interest income) and the asset cash each $25.50. The entry to record this transaction in the cash book is shown at the top of page 217.

CASH BOOK

					Receipts	
19 April	25	218	Interest Income	On daily bank balance	25	50

Interest on Accounts Receivable. Some firms collect interest from charge customers on past due accounts while others collect interest only on notes. Cash received from a charge customer for the amount he owes and interest results in an increase in the asset cash, an increase in the proprietorship (income) through the interest, and a decrease in the asset accounts receivable.

April 30. J. H. Baron received a check from A. C. Cole for $431.65 for balance due on account, $429.50, and 6% interest for the 30 days past due, $2.15.

This transaction results in an increase in the asset cash, a decrease in the asset accounts receivable, and an increase in income (proprietorship). The entry to record the transaction in the cash book is:

CASH

					Receipts	
19 April	30		A. C. Cole	In full of account	429	50
	30	218	Interest Income	Interest on past due account	2	15

Interest Included in a Note. When a note is received from a charge customer for a past due balance and interest, the transaction results in an increase in the asset notes receivable for the face of the note, an increase in proprietorship for the interest, and a decrease in the asset accounts receivable. This effect is recorded by a compound journal entry in which Notes Receivable is debited for the face of the note, Interest Income credited for the amount of the interest, and the customer credited for the balance of his account.

April 30. J. H. Baron received from Marion Dell, a charge customer, note No. 26, face $209.48, in settlement for a past due account, $207.63, and interest, $1.85.

This transaction increases the asset notes receivable $209.48, decreases the asset accounts receivable $207.63 and increases the proprietorship (income) $1.85. The entry to record this transaction is in the illustration at the right. The posting to the Interest Income account is on page 218.

April 30, 19

	Notes Receivable	209	48	
218	Interest Income			1 85
	Marion Dell			207 63
	Received note No. 26, face, $209.48, in full of account, $207.63, and interest, $1.85.			

The Interest Income account in the illustration at the left shows the result of posting the interest income recorded in the four transactions illustrated. Each entry on the credit side of the Interest Income account records an increase in income because of an increase in assets. In the first three transactions, cash was the asset increased; in the fourth transaction, notes receivable was the asset increased.

INTEREST INCOME

19					
April	19	C	216	5 —	
	25	C	216	25	50
	30	C	217	2	15
	30	J	217	1	85
				34	50

Exercise 81, Interest Income

(ORAL OR WRITTEN)

1. Received check for $406.00 for note No. 37, face $400.00, and interest $6.00. What effect does this transaction have on (a) the assets? (b) the income? (c) How is it recorded?

2. Received check from James Slater for $201.25 in full of account, $199.75, and interest, $1.50. What effect does this transaction have on (a) the assets? (b) the income? (c) How is it recorded?

3. Received notice from the bank that our account had been credited with $3.75, interest on daily deposits. (a) What effect does this transaction have on the assets and income? (b) How is it recorded?

4. Received from W. H. Mills a check for $252.50 and note No. 77, face $250.00, in settlement for note No. 63, face $500.00 and interest, $2.50. What effect does this transaction have on the assets and income?

5. Received from James Fish, a charge customer, note No. 25, face $217.65, for account $215.20, and interest $2.45. (a) What effect does this transaction have on the assets and income? (b) How is it recorded?

Exercise 82, Notes Receivable and Interest Income

Record the following transactions completed by Walter Evans in the general journal, cash book, and notes receivable register.

1. May 7. Received from Nathan Marks a 60-day 6% interest-bearing note, face $507.50, payable at Union Bank, in full of account, $500.00, and interest on the account for 90 days, $7.50. Record in the register as No. 30.

2. May 10. Received from M. L. Trapp a 30-day 6% interest-bearing note, face $184.73, payable at Farmers Bank, Uniontown, for a past due account, $182.90 and interest on the account, $1.83.

3. May 28. Received from L. A. Fowler a 60-day, 6% note, payable at City Bank, for $75.00 and a check for $25.36 in full of account, $99.65, and interest, 71c.

4. June 1. Sent note No. 31 to Farmers Bank, Uniontown, for collection.

5. June 10. Received from O. A. Locke a 30-day 6% interest-bearing note for $271.55, payable at Union Bank, for account, $269.80, and interest on past due account, $1.75.

6. June 12. Received cashier's check for $185.15 for note No. 31 and interest, 92c, less collection charges, 50c.

7. July 6. Received check from Nathan Marks for $312.58 and a 60-day 6% interest-bearing note for $200.00 for note No. 30, face $507.50, and interest, $5.08.

Exercise 83, Accounts Receivable and Interest Income

Record in the general journal, cash book or both, as required, each of the following transactions.

(1) May 4. Received from I. H. Cobbe check for $1,212.00 in full of account, $1,200.00, and interest at 6% for 60 days, $12.00.

(2) June 4. Received notice from the City National Bank that our account has been credited with $39.65, interest on daily bank balance.

(3) April 15. Received from B. L. Stewart, a charge customer, note No. 67, face $217.50, in full of account, $215.50, and interest on the account, $2.00.

(4) March 12. Received from W. D. Wales, a charge customer, note No. 48 for $500.00 and a check for $214.04 in full of past due account, $710.35, and interest to date, $3.69.

(5) May 11. Received from W. D. Wales check for $255.00 and a 60-day 6% interest-bearing note for $250.00 for note No. 48.

INTEREST CALCULATIONS

Method of Ascertaining the Interest. Interest calculations require knowledge of the following: (a) the principal on which the interest is to be paid or collected, (b) the time and (c) the rate. The principal is stated in the note or account. The rate is the agreed or legal rate. The interest to be paid or collected is the principal multiplied by the rate expressed as a decimal fraction, if the time is one year; if the time is more or less than a year, the interest is proportionately more or less.

The Time between two dates includes the number of days beginning with the next after the first date and including the last day of the period. Thus, the method of ascertaining the time between May 11 and July 16 would be as in the illustration at the right. The date subtracted from the number of days in the month gives the remaining number of days in that month. The number of days in each succeeding month and the number of days in the ending month added to the number of days remaining in the beginning month is the number of days for which interest is computed.

May	31 days
May	11 date
	20 days
June	30 days
July	16 days
	66 days

Sixty-day, Six Per Cent Method. For convenience when making interest calculations, it is customary in business to regard a year as 360 days. Thus, if the interest rate is 6%, this means 6/100 of the principal for 360 days. If the time is only 180 days, the interest would be one-half the interest for a year; if 90 days, one-fourth; if 60 days, one-sixth.

The interest on $1,000.00 for one year at 6% is 6/100 of $1,000.00 or $60.00. The interest on $1,000.00 for 60 days at 6% is 1/6 of the interest for one year or $10.00. The interest on $1,000.00 for 6 days is 1/10 of the interest for 60 days or $1.00. Thus, the interest on $1,000.00 for one year at 6% is $60.00, for 60 days, $10.00, and for 6 days, $1.00.

The "6% 60 day" method is based on the fact that the interest on any amount for 60 days at 6% is one hundredth of the amount and the interest for six days is one thousandth of the amount. Thus, the interest on $1,650.00 for 60 days is $16.50 and for 6 days $1.65. The illustration at the left shows the method of ascertaining the interest on $326.48 for 48 days at 6%. The interest for 6 days is $0.32648 and 6 is contained into 48, 8 times, hence the interest for 48 days is 8 times the interest for 6 days.

Interest on $326.48 for 6 days = $0.32648
48 days, the time ÷ 6 = 8
$0.32648 × 8 = $2.61

The interest on $326.48 for 72 days at 6% and at 8% is ascertained as in the illustration at the right. The interest at 8% is one-third more than at 6%.

Interest on $326.48 for	60	days =	$3.2648
Interest on $326.48 for	6	days =	.32648
Interest on $326.48 for	6	days =	.32648
Interest on $326.48 for	72	days =	$3.91776
$3.91776 ÷ 3		=	1.30592
Interest at 8% for	72	days =	$5.22368

SUMMARY

The Interest Expense Account is a record of the increase in the expense because of interest paid or accrued. This account is *debited* for increases in interest expense.

The *debit* balance of the Interest Expense account is an expense and is closed into the Profit and Loss Summary account.

The Interest Income Account is a record of the increase in income because of interest collected or accrued. This account is *credited* for increases in interest income.

The *credit* balance of the Interest Income account is an income and is closed into the Profit and Loss Summary account.

Interest Calculations. The interest on any amount for 60 days at 6% is 1/100 of the amount, and for 6 days, 1/1000. When the time is more than 60 days, the interest for 60 days is used as a basis and for less than 60 days, the interest for 6 days. When the interest rate is more or less than 6%, the interest for 1% (interest at 6% divided by 6) is multiplied by the given rate to ascertain the desired amount of interest.

Exercise 84, Interest

(ORAL OR WRITTEN)

1. "Sixty days after date I promise to pay to the order of City Bank, $1000.00 with interest at 6%." This quotation is from a note issued by A. L

Moffit December 12. (a) What is the maturity date? (b) What is the maturity value? (c) What entry will be made on the books of A. L. Moffit when the note is paid at maturity?

2. (a) What is the nature of the transaction recorded in the journal entry at the right? What effect does this transaction have on (b) the assets? (c) the liabilities? (d) the proprietorship?

December 14, 19

D. D. Kreimer	251 55		
Interest Expense	2 56		
Notes Payable			254 11

3. (a) What is the nature of the transaction of July 5 shown recorded in the three accounts at the left? (b) How will the transaction be stated in journal form? (c) What effect does this transaction have on the assets and proprietorship? (d) How many days was the account past due? (e) What is the maturity date of the note? (f) What is the maturity value of the note?

W. O. Todd — City

19						19					
Apr.	6	60 days	S	97	326 80	July	5	Note	J 7	326	80

Interest Income

						19					
						July	5		J 7	1	63

Notes Receivable

19					
July	5	6%, 30	J 7	328	43

4. What is the amount of interest in each of the following problems:

(a) $ 400.00, 45 days, 8%?
(b) $ 500.00, 36 days, 6%?
(c) $ 240.00, 15 days, 6%?
(d) $ 500.00, 48 days, 6%?
(e) $ 300.00, 30 days, 8%?
(f) $6,000.00, 15 days, 8%?
(g) $1,500.00, 30 days, 8%?
(h) $ 900.00, 90 days, 9%?

Exercise 85, Interest Calculations

Ascertain the following:

1. Maturity value of a 90-day 6% interest-bearing note for $326.50.
2. Maturity value of a 30-day 8% interest-bearing note for $127.80.
3. Maturity value of a 60-day 9% interest-bearing note for $19.65.
4. Maturity value of a 30-day 7% interest-bearing note for $131.55.
5. Interest on $142.55 for 45 days at 5%.
6. Interest on $32.55 from October 12 to December 21 at 6%.
7. Interest on $2,500.00 from March 3 to June 17 at 8%.
8. Interest on $486.16 from August 17 to November 12 at 7%.
9. Maturity value of a 90-day 6% interest-bearing note for $429.38.
10. Amount to be collected October 9 on a sale dated July 5, terms, 60 days, amount of sale $791.82, interest at 6% for the time past due.

CHAPTER XIX

PURCHASES DISCOUNT AND SALES DISCOUNT

When merchandise is sold on credit, the buyer usually has thirty, sixty or ninety days in which to make payment. In order to encourage him to make payment before the time allowed, the seller may allow him a *cash discount* for payment within a definite period. The discussion in this chapter relates to the method of recording transactions in which cash discount is involved.

Cash Discount. The purpose of cash discount is to facilitate collection. The buyer will make a greater effort to pay the obligation promptly if by so doing he is allowed to cancel it with a less amount of cash than the obligation.

James Brown buys merchandise for $1,000.00 on thirty days time. It is agreed at the time he makes the purchase that if he pays within ten days, he may deduct one per cent discount. It is quite evident that Mr. Brown will make a special effort to pay within the ten days because by so doing, he cancels a liability of $1,000.00 with $990.00 cash.

Terms on Invoices. The agreed discount is stated in the terms of the invoice. Terms "net 60 days" mean that the buyer will be expected to pay within sixty days from the date of the invoice. Terms "2/10, n/60" indicate that the buyer will be expected to pay the full amount of the invoice within sixty days from the date of the invoice, but if he pays within ten days, he will be entitled to a discount of two per cent from the amount of the invoice.

Cash discount does not change the method of recording a purchase or a sale because neither party knows that the discount will be deducted. The discount becomes effective only when the invoice is paid or collected.

Cash discounts are of two kinds:

(1) Those allowed to the business by creditors. usually referred to as *purchases discount.*

(2) Those allowed by the business to charge customers, usually referred to as *sales discount.*

Purchases Discount. The cash discount deducted by the purchaser in accordance with the terms of the purchases invoice is referred to as *purchases discount.* The effect of purchases discount on the equation, "Assets = Liabilities + Proprietorship" is to decrease the assets the amount of cash paid, decrease the liabilities the amount of the obligation canceled and increase the

income (proprietorship) the difference between the amount of the liability and the cash paid, which is the amount of the discount.

The account in the illustration at the right appears on the ledger of O. L. Gore. The information recorded in this account shows that O. L. Gore owes L. K. Day $950.00 for merchandise purchased October 23. The terms of the invoice state that O. L. Gore may deduct 3% if payment is made to L. K. Day within ten days from October 23.

L. K. Day — City

19 Oct.	23	3/10 n/30	P3	950	—		

November 1. Issued check No. 55 for $921.50 to L. K. Day in full for invoice of October 23, $950.00, less 3% discount.

This transaction decreases the asset cash $921.50, the liability accounts payable $950.00, and increases the income $28.50. The general journal entry at the left and the cash book entry below record this transaction. The debit to L. K. Day records the decrease in the liability accounts payable; the credit to the Cash account, the decrease in the asset cash; and the credit to the Purchases Discount account, the increase in income.

November 1, 19

	L. K. Day	950 —		
√	Cash		921	50
	Purchases Discount		28	50
	Paid invoice of 10/23 less discount.			

CASH — Payments

Date		L. F.	Name of Account	Explanation	Amount
19 Nov.	1	√	L. K. Day	In full of account less discount	921 50

The check marks in the folio columns are to avoid double posting. When the journal entry as stated is posted, the account with L. K. Day will be in balance and the Purchases Discount account will have a credit balance of $28.50; the credit to the Cash account will be through posting the total cash payments at the end of the month.

The entry for the transaction of November 1 may be recorded complete in the cash book with the addition of a column for the purchases discount as in the illustration below.

CASH — Payments

Date		L. F.	Name of Account	Explanation	Amount Dr.	Pur. Disct. Cr.	Net Cash Cr.
19 Nov.	1		L. K. Day	Invoice 10/23, less 3%	950 —	28 50	921 50

The amount of the invoice is entered in the first column, the discount in the second, and the check in the third. This records the decrease in the liability accounts payable, the increase in income, and the decrease in the asset cash, hence maintains the equality of debits and credits.

When posting, the account with L. K. Day is debited with the amount entered in the first column; the credit to the Purchases Discount account is from the second column and the credit to Cash from the third column. The method of posting the total purchases discount in the Purchases Discount column of the cash book is explained on page 230.

Exercise 86, Purchases Discount

(ORAL OR WRITTEN)

1. The proprietorship of D. W. Ray, August 1, in equation form is:

ASSETS \$6,000.00 = LIABILITIES \$2,100.00 + D. W. RAY, PROPRIETORSHIP \$3,900.00

August 1. D. W. Ray issued check to a creditor for \$490.00 in full of account, \$500.00, less 2% discount. (a) Show the effect of this transaction on the above equation. (b) State the journal entry to record the transaction. (c) State the entry to record the cash paid in the cash book.

2. "Terms, 3/10,2/30,n/60", appear on an invoice for \$2,500.00 received by D. D. Mayo, May 16. What amount will be required to pay this invoice (a) before May 26? (b) before June 15? (c) at the maturity of the invoice? (d) Show the amounts that would be in each of the three columns of the cash book on the payments side if the invoice is paid before June 15.

3. October 12. D. C. Bane received an invoice for merchandise purchased, \$850.00; date of the invoice, October 7; terms, 3/10-n/60. (a) State the entry to record this transaction in the purchases journal. (b) State the entry to record the transaction in a cash book with three columns when the invoice is paid October 17.

4. The proprietorship of L. Spence, October 1, in equation form is:

ASSETS \$4,400.00 − LIABILITIES \$1,650.00 = L. SPENCE, PROP. \$2,750.00

October 1. Issued check to W. L. Nye, a creditor, for \$480.00 in full of account, \$500.00, less 4%. (a) State the effect of this transaction on the above equation. (b) State the entry in journal form to record the transaction. (c) State the entry to record the transaction in a three column cash book.

5. October 3. Issued check to W. L. Nye for \$5.00 because the discount deducted in the transaction of the 1st should have been 3% instead of 4%.

(a) State the effect of this transaction on the equation resulting from recording the preceding transaction. State the entry to record the transaction (b) in journal form; (c) in a cash book with three columns.

SALES DISCOUNT

Sales Discount. The cash discount allowed to a customer as indicated by the terms on the sales invoice is referred to as *sales discount.* It permits a charge customer to cancel his obligation with a less amount of cash than the obligation. The effect of sales discount on the equation, "Assets = Proprietorship", is to increase the assets the amount of cash received, decrease the assets the amount of the account receivable canceled, and increase the expense the difference between the amount of the account receivable canceled and the cash received, which is the amount of the discount.

The account in the illustration at the right appears on the ledger of W. B. Gordon. This account shows that Charles Lay, has the privilege of deducting 3% if check is received from him on or before February 1.

CHARLES LAY

19						
Jan.	22	3/10 n/30	S75	250	—	

February 1. Received check from Charles Lay for $242.50 in full for sale of January 22, $250.00, less 3% discount.

This transaction increases the asset cash $242.50, decreases the asset accounts receivable $250.00, and increases the expense $7.50. The general journal entry at the left and the cash book entry below record the transaction. The debit to the Cash account records the increase in the asset cash; the credit to the account with Charles Lay, the decrease in the asset accounts receivable; and the debit to Sales Discount, the increase in expense.

February 1, 19

✓	Cash	242 50		
	Sales Discount	7 50		
	Charles Lay		250	—
	Received cash in full of account less discount.			

CASH Receipts

19						
Feb.	1	✓	Charles Lay	In full of account less discount	242	50

The check marks in the folio columns are to avoid double posting. When the journal entry is posted as stated the account with Charles Lay will be in balance and the Sales Discount account will have a debit balance of $7.50; the debit to the Cash account will be through posting the total cash receipts at the end of the month.

The entry for the transaction of February 1 may be recorded in the cash book only with the addition of a column for the sales discount as in the illustration below.

CASH Receipts

Date	L. F.	Name of Account	Explanation	Amount Cr.	Sales Disct. Dr.	Net Cash Dr.
19 Feb. 1		Charles Lay	Sale Jan. 22, less 3%	250 —	7 50	242 50

The amount with which the customer is credited is entered in the first column, the discount in the second, and the cash in the third. This records the decrease in the asset accounts receivable, the increase in expense, and the increase in the asset cash, hence maintains the equality of debits and credits. The posting is explained on page 230.

Exercise 87, Sales Discount

(ORAL OR WRITTEN)

1. The proprietorship of A. A. Joy, November 1, in equation form is:

CASH $550 + ACCTS. REC. $825 + MDSE. INV. $1,450 = A. A. JOY, PROP. $2,825

November 1. Received check from Charles Riley, a charge customer, for $392.00 in full of account, $400.00, less 2% discount. (a) State in equation form the effect of this transaction on the above equation. (b) State the journal entry to record the transaction. (c) State the entry to record the cash received in the cash book.

2. "Terms: June 1 4/10, 3/30, 2/60, n/90" appear on a sales invoice for $300.00 rendered to a charge customer by C. H. Lucas, May 15. What amount will be received if collection is made in full before (a) June 10? (b) June 30? (c) July 30? (d) August 30? (e) Show the amount that would be in each of the three columns of the cash book on the receipts side if collection is made June 30.

3. March 16. O. C. Howe rendered an invoice to J. W. Allen, a charge customer for $927.50, terms 2/10, n/30. (a) State the entry to record this transaction in the sales journal. (b) State the entry to record the transaction in the cash book if cash is received March 18.

4. The proprietorship of B. Sams, June 1, in equation form is:

CASH $950 + ACCTS. REC. $800 + MDSE. INV. $2,600 = B. SAMS, PROP. $4,350

June 1. Received check from W. A. Young, a charge customer, for $291.00 in full of account, $300.00, less 3%. (a) State the effect of this transaction on the above equation. (b) State the entry in journal form to record the transaction. (c) State the entry to record the transaction in a three column cash book.

5. June 6. Received a check from W. A. Young for $3.00 because he had deducted 3% instead of 2% when he made remittance on June 1. (a) State

the effect of this transaction on the equation in Question 4 (a). State the entry to record the transaction (b) in journal form; (c) in a cash book with three columns.

COLUMNAR CASH BOOK

Columnar Cash Book. If a transaction is to be recorded and posted quickly, the use of more than one journal should be avoided. When sales and purchases discounts are involved, the use of the general journal and cash book requires entries in both books but the use of additional columns on the cash receipts and payments sides of the cash book makes it possible for each transaction to be recorded in the cash book only. Additional time is saved in that each purchases and sales discount need not be posted separately but the total of each column may be posted at one time the same as the total of the cash receipts or cash payments. A cash book with special columns for recording and posting in the manner explained is referred to as a *columnar cash book.*

Arrangement of Columnar Cash Book. The columns in the cash book should be arranged to facilitate posting. Those columns which contain amounts to be posted daily should be placed nearest the account title. Thus, in the three-column cash book, Illustration 49, amounts entered in the discount and cash columns are not to be posted until the end of the month hence these columns are placed at the right.

Illustrations of Columnar Cash Book. The illustration at the top of pages 228 and 229 shows a columnar cash book with three columns on each side. The three columns on each side make it unnecessary to use the general journal to record the purchases or sales discount involved in cash transactions. The transactions recorded in this columnar cash book are given below the illustration. The method of recording these transactions may be briefly described as follows:

Receipts Side. Each amount to be posted to the credit of an account is entered in the Amount column on a line with the name of the account. The amount of the discount, if any, is entered in the Sales Discount column. The net amount of cash received in each transaction is entered in the Net Cash column. The total of the Amount column less the total of the Sales Discount column should always equal the total of the Net Cash column.

Payments Side. Each amount to be posted to the debit of an account is entered in the Amount column on a line with the name of the account. The amount of the discount, if any, is entered in the Purchases Discount column. The net amount of cash paid in each transaction is entered in the Net Cash column. The total of the Amount column less the total of the Purchases Discount column should always equal the total of the Net Cash column.

CASH RECEIPTS

September

DATE	L. F.	ACCOUNT CREDITED	EXPLANATION	AMOUNT CR.	SALES DISCT. DR.	NET CASH DR.
1		Robert A Baum, Cap	Investment	5000		5000
8		D.C. Dale	For sale of 8/28	160	320	15680
9		Sales	Cash sales	23165		23165
15		W. C. Bird	On account	20000 (55911 65)	4720 (55720 45)	19680 (55191 20)
16		Sales	Cash sales	16250		16250
20		Sammet Bros.	In full for sale 9/5	18750	375	18375
23		Abbott Bros.	In full of account	2550		2550
29		E. A. Bradford	In full for sale 9/20	17980	360	17620
30		Sales	Cash sales	42150		42150
30	✓	Total credits		656845		
30		Sales Disct. Dr.	Total discount		1455	
30		Cash Dr.	Total receipts			655390
Oct. 1	✓	Balance				391063

Illustration 49, Receipts Side of the Three-column Cash Book

Cash Proof. At the time of proving cash, all the columns on each side are totaled, and the pencil footings entered in each column under the line on which the last amount is entered. The position of these pencil footings is shown by the small figures in Illustration 49, when cash was proved September 15.

The total of the first column should equal the sum of the totals of the second and third columns on each side. The difference between the totals of the Net Cash Dr. and Net Cash Cr. columns is the cash balance.

Narrative of Transactions. The following transactions shown recorded in the illustrations at the top of this and the opposite page were completed by Robert A. Baum, a retail merchant, during the month of September.

1. Robert A. Baum invested cash, $5,000.00.
3. Paid $62.25 for paper and other storeroom supplies.
6. Gave Adams & Adams check for $199.43 in full of account, $203.50, less 2%. Purchased August 10, recorded September 1.
8. Received a check from D. C. Dale for $156.80 in full of account, $160.00, less 2%. Sold August 28, recorded September 2.
9. Cash sales to date $231.65.
10. Gave the C. & A. Railway Company check for $15.87 in payment of freight on merchandise purchased.
13. Gave J. L. Harmon & Son a check for $955.93 in full for purchase of September 2, $985.50, less 3%.

CASH PAYMENTS

September

DATE	L. F.	ACCOUNT DEBITED	EXPLANATION	AMOUNT DR.	PUR. DISCT. CR.	NET CASH CR.
3		Store Supplies	Paper, etc	62 25		62 25
6		Adams & Adams	For invoice 9/10	203 50	4 07	199 43
10		Purchases	Freight	15 87		15 87
13		J. L. Harmon & Son	In full of account	1,985 50	29 57	1,955 93
16		Salaries	Clerk's salary	82 50		82 50
24		Joseph Larson & Co.	For purchase 9/14	726 75	14 54	712 21
26		Rule Bros.	In full of account	126 50		126 50
30		W. O. Shaw & Co.	For purchase 9/1	367 25	3 67	363 58
30		Rent	September rent	125		125
30		Total debits		2695 12		
30		Purchases Disct. Cr.	Total discount		51 85	
30		Cash Cr.	Total payments			2643 27
30	✓	Balance				3910 63
						6553 90

Illustration 49, Payments Side of the Three-column Cash Book

15. Received a check from W. C. Bird for $196.00 to apply on sale of September 5, $392.50, terms 2/10, n/30.
 The amount of credit is ascertained by dividing the cash received by 98c; the discount is the difference between the quotient and the cash received.
15. A count of the cash on hand and in the bank shows a total of $4,350.97 and this was proved with the cash book record.
16. Cash sales, $162.50.
16. Paid clerk's salary, $82.50.
20. Received check from Sammet Bros. for $183.75 in full for sale of September 3, $187.50 less 2%.
23. Received check for $25.50 from Abbott Bros. in full for sale of September 1.
24. Gave Joseph Larson & Co. check for $712.21 in payment of purchase of September 14, $726.75 less 2%.
26. Paid Rule Bros. $126.50 in full for purchase of September 1.
29. Received check from E. A. Bradford for $176.20 in full for sale of September 20, $179.80 less 2%.
30. Gave W. O. Shaw & Co. check for $363.58 in payment for purchase of September 1, $367.25 less 1% discount.
30. Gave the Solomon Realty Co. check for $125.00, September rent.
30. Cash sales to date, $421.50.
30. All cash has been deposited; bank balance, $3,910.63.

Posting from the Columnar Cash Book. The following comments apply to the cash book illustrated on pages 228 and 229:

Receipts Side. Each amount entered in the Amount column is posted to the credit of the account written on the same line with it; these credits are posted daily. The amounts entered in the Sales Discount and Net Cash columns are not posted daily. At the end of the month or when a Trial Balance is to be taken, the total of the Sales Discount column is posted to the debit of the Sales Discount account; the total of the Net Cash column is posted to the debit of the Cash account. Cash and the equality of the debits and credits are proved before the totals are posted.

Payments Side. Each amount entered in the Amount column is posted to the debit of the account written on the same line with it; these debits are posted daily. The amounts entered in the Purchases Discount and Net Cash columns are not posted daily. At the end of the month or when a Trial Balance is to be taken, the total of the Purchases Discount column is posted to the credit of the Purchases Discount account; the total of the Net Cash column is posted to the credit of the Cash account. Cash and the equality of the debits and credits are proved before the totals are posted.

SUMMARY

The Purchases Discount account is a record of the increases in income because of the deduction of cash discount when paying creditors.

This account is *credited* for the increases in the income, cash discount.

The *credit* balance of the Purchases Discount account is an income and is closed into the Profit and Loss Summary account.

The Sales Discount account is a record of the increases in expense because of the deduction of cash discount by customers.

This account is *debited* for the increases in the expense, cash discount.

The *debit balance* of the Sales Discount account is an expense and is closed into the Profit and Loss Summary account.

Columnar Cash Book. The purpose of the columnar cash book is to facilitate recording transactions and posting. Any number of columns may be provided on either or both sides of the cash book. When extra columns are provided for cash discount only, three are needed on each side. The daily posting is from the first money column at the left on each side and the monthly posting, the totals of the two columns at the right on each side.

Exercise 88, Cash Discount

(ORAL OR WRITTEN)

1. "May 20. Received check for $106.70 from Albert Yoe in full for sale of May 10, $110.00, less 3% discount." What accounts are (a) debited? (b) credited? How would the transaction be recorded (c) in the general journal? (d) in a three-column cash book?

2. Received check for $1.00 from A. L. Frye to correct error in sales discount deducted. What account is (a) debited? (b) credited? (c) How will this transaction be recorded in a three-column cash book?

3. What entry or entries will be required to record the facts shown on the check stub illustrated at the left (a) if all transactions are recorded in one journal? (b) if cash transactions are recorded in a cash book without special columns? (c) if cash transactions are recorded in a columnar cash book?

No. *321*
Date *June 16*
To *N. X. Myers*
For *Inv. 6/7* $216.50
Less 3% 6.50
Amount $210.00

4. The bookkeeper for C. H. Bates, a retail merchant, uses a cash book in which the receipts side is ruled similar to Illustration 49. The totals for the month of May of the three amount columns are in the illustration at the right. (a) What is the title of each of these columns? (b) How are the totals posted?

5617	15	129	50	5487	65

5. The bookkeeper for L. M. Day, a retail merchant, uses a cash book in which the payments side has columns similar to those in Illustration 49. The totals of the three amount columns for the month of October are in the illustration at the right. (a) What is the title of each of these columns? (b) How are the totals posted?

6654	41	221	50	6432	91

Exercise 89, Posting the Columnar Cash Book

It is desired to record in the ledger all the facts shown on pages 228 and 229. This includes the cash transactions recorded in the illustration and the purchases and sales which are the basis for the cash receipts and payments as outlined in the transactions under the illustration.

Instructions. (1) Record in the sales journal under the appropriate date the sales for which cash is collected as recorded in the cash book.

(2) Record in the purchases journal under the appropriate date the purchases for which cash is paid as recorded in the cash book.

(3) Post from the purchases journal, sales journal, and cash book, allowing five lines for each account, and take a Trial Balance.

Exercise 90, Purchases Discount

George Black began business February 1 with a cash investment of $2,000.00. During February he completed the following transactions in which merchandise was purchased on credit and invoices were paid less discount.

1. Purchased merchandise from Rowland Bros., City, terms 2/10 n/60, invoice of January 28, $416.80.
2. Purchased merchandise from J. Kasson, Hampton, terms 1/10 n/30, invoice of January 30, $381.90.

5. Purchased merchandise from L. B. Meyers, City, terms 3/10 n/30, invoice of February 1, $527.90.
6. Purchased merchandise from Walter Akers, Pittsburg, terms 1/10 n/30, invoice of February 4, $327.90.
7. Gave Rowland Bros. check for $408.46 in payment for invoice of January 28 less discount.
8. Purchased merchandise from William Evans, City, terms 1/10 n/30, invoice of February 6, $127.90.
9. Gave J. Kasson check for $378.08, January 30 invoice less discount.
10. Purchased merchandise from C. H. Norbert, Uniontown, terms 2/10 n/30, invoice of February 8, $550.41.
11. Gave L. B. Meyers check for $512.06, February 1 invoice less discount.
14. Gave Walter Akers check for $324.62, February 4 invoice less discount.

Instructions. (1) Record these transactions in the purchases journal and three-column cash book.

(2) Post, allowing five lines for each account, and take a Trial Balance.

Exercise 91, Sales Discount

The investment of R. W. Nye, February 1, is shown by the following equation:

Cash $1,350 + Mdse. Inventory $1,650 = R. W. Nye, Prop. $3,000.

During the month he completed the following sales and cash collections:

2. Sold merchandise to R. L. Martin, City, terms 1/10 n/30, sales ticket No. 314, $88.95.
4. Sold merchandise to M. S. Landis, City, terms 2/10 n/60, sales ticket No. 315, $123.15.
5. Sold merchandise to H. I. White, City, terms 3/10 n/60, sales ticket No. 316, $178.98.
7. Sold merchandise to D. C. Miller, City, terms 2/10 n/30, sales ticket No. 317, $256.76.
12. Received check for $88.06 from R. L. Martin, sale No. 314 less discount.
13. Sold merchandise to A. M. Allan, City, terms 3/10 n/30, sales ticket No. 318, $351.45.
14. Received check for $120.69 from M. S. Landis, sale No. 315 less discount.
15. Received check for $173.61 from H. I. White, sale No. 316 less discount.
16. Sold merchandise to J. L. Macon, City, terms 1/10 n/30, sales ticket No. 319, $87.50.
18. Received check for $251.62 from D. C. Miller, sale No. 317 less discount.

Instructions. (1) Record the investment in the general journal and cash book, and the transactions in the sales journal and columnar cash book.

(2) Prove the equality of the debits and credits recorded in the cash book and post from the general journal, sales journal and cash book.

(3) Take a Trial Balance.

CHAPTER XX
WORK AT THE CLOSE OF A FISCAL PERIOD

As explained in the two preceding chapters, transactions which involve interest and cash discount increase or decrease the proprietorship. The discussion in this chapter relates to (a) the method of showing the effect of interest and cash discount on the Balance Sheet and Profit and Loss Statement, and (b) a review of preceding discussions.

A Fiscal Period is an accounting period of one or more months and not exceeding twelve as explained in previous discussions. At the beginning of a fiscal period the owner knows the value of his assets, the amount of his liabilities and his proprietorship. This information is obtained from a count of the assets and from the bookkeeping records.

During the fiscal period, the transactions are recorded to show their effect on assets, liabilities, and proprietorship or to provide information from which the effect can be determined when inventories are secured. At the close of a fiscal period, it is necessary to count the assets in order to ascertain the cost of the merchandise sold, the supplies used, the insurance expired, and the estimated depreciation on equipment. When the cost of sales and expenses referred to in the preceding sentence have been recorded, the balance of each account on the ledger will show either an asset, liability, proprietorship, expense or income.

The Work Required at the Close of a Fiscal Period may be briefly described as follows:

(1) Taking inventories.
(2) Preparing the Working Sheet.
(3) Preparing the Balance Sheet and Profit and Loss Statement.
(4) Recording inventories, expired insurance, and depreciation.
(5) Recording the closing entries.
(6) Preparing the Post-closing Trial Balance.

Illustrations. The work required at the close of the fiscal period is further explained by illustrations. These illustrations and the discussion in in connection with them provide a review of preceding chapters.

September 1. The assets, liabilities, and proprietorship of R. A. French, a distributing merchant for radio receiving sets and loud speakers, expressed in equation form are:

ASSETS $8429.67 – LIABILITIES $1614.25 = PROPRIETORSHIP $6815.42

During September a number of transactions were completed and recorded in the books of original entry and ledger. The Trial Balance taken September 30 is given in the first two columns of the Working Sheet illustrated below.

The value of the merchandise in stock on September 30 is $5,627.90; store and office supplies, $109.65; prepaid insurance, $100.00; depreciation on equipment, 1% per month.

Working Sheet. The purpose of the Working Sheet in the illustration below is to ascertain the present proprietorship and net profit. The method of preparing this Working Sheet is briefly described as follows:

(1) The Trial Balance is copied in the first two columns at the left of a sheet ruled with eight columns as in the illustration below.

R. A. French
Working Sheet, September 30, 19

NAME OF ACCOUNT	TRIAL BALANCE DR.	TRIAL BALANCE CR.	ADJUSTMENTS DR.	ADJUSTMENTS CR.	BALANCE SHEET ASSETS	BALANCE SHEET LIAB. & PROP.	PROFIT AND LOSS STATEMENT COSTS & EXP.	PROFIT AND LOSS STATEMENT INCOME
Cash	1247 55				1247 55			
Notes Receivable	700 —				700 —			
Radio Shop	265 50				265 50			
D. D. Julian	259 60				259 60			
Merchandise Inventory	5302 65		5627 90	5302 65	5627 90			
Store & Office Supplies	137 15			27 50	109 65			
Prepaid Insurance	110 —			10 —	100 —			
Equipment	500 —				455 —			
Depreciation Reserve		10 —		5 —				
Notes Payable		500 —				500 —		
Radio Manufacturing Co.		251 50				251 50		
Russell & Russell		805 17				805 17		
R. A. French, Capital		6815 42				6615 42		
R. A. French, Drawing	200 —							
Sales		5124 45						5124 45
Purchases	4402 25		5302 65	5627 90			4077 —	
Rent Expense	112 50						112 50	
Salary Expense	279 25						279 25	
Store & Office Supplies Used			27 50				27 50	
Expired Insurance			10 —				10 —	
Depreciation Expense			5 —				5 —	
Interest Income		4 67						4 67
Purchases Discount		79 65						79 65
Interest Expense	6 62						6 62	
Sales Discount	67 49						67 49	
	13590 86	13590 86	10973 05	10973 05	8795 50	8717 09	4558 36	5208 77
Net Profit						78 41	649 41	78 41
					8795 50	8795 50	5208 77	5208 77

Illustration 50, Working Sheet

(2) Adjustments to make each account balance show an asset, liability, proprietorship, cost, or income are made as follows:

(a) The September 1 merchandise inventory, $5,302.65, is added to Purchases and subtracted from the Merchandise Inventory account by entries in the Adjustments columns debiting Purchases and crediting Merchandise Inventory.

(b) The September 30 merchandise inventory, $5,627.90, is deducted from Purchases and added to the Merchandise Inventory account by a credit to Purchases and a debit to the Merchandise Inventory account in the Adjustments columns.

(c) The cost of supplies used, insurance expired and the estimated depreciation are recorded in the credit and debit Adjustments columns to indicate subtraction from the Supplies and Prepaid Insurance accounts, addition to the Depreciation Reserve account and addition to the appropriate expense accounts.

(3) The Adjustments columns are proved to be in balance and the account balances extended as follows:

(a) The balance of each of the first four accounts is an asset, hence, is extended into the Assets column.

(b) The September 30 merchandise inventory, which is now the balance in the Merchandise Inventory account, is extended into the Assets column.

(c) The asset value of the supplies on hand ($137.15 − $27.50) is extended into the Assets column. The asset value of the prepaid insurance ($110.00 − $10.00) is extended into the Assets column.

(d) The estimated depreciation, $5.00, recorded in the credit Adjustments column is added to the credit balance of the Depreciation Reserve account and the sum, $15.00, subtracted from the cost of the equipment, $500.00, and the book value, $485.00, which is an asset, entered in the Assets column.

(e) The next three account balances are liabilities; hence, each is extended into the Liabilities column.

(f) The net investment ($6,815.42 − $200.00) is extended into the same column as the liabilities because this column contains both liabilities and proprietorship.

(g) Each of the remaining account balances shows either an income or expense and is extended into the Income or Expense column.

(4) The Balance Sheet and Profit and Loss Statement columns are totaled. The total assets, $8,795.50, minus the total liabilities and capital, $8,172.09, equals the net profit, $623.41. The total income, $5,208.77, minus the total cost and expense, $4,585.36, equals the net profit, $623.41. The fact that the net profit is the same in each case indicates the correctness of the extensions. The net profit is entered in the Liabilities and Capital column and in the Costs and Expense column to balance the columns.

Balance Sheet. The Balance Sheet below was prepared from the Working Sheet on page 234. The total assets, liabilities and proprietorship stated in equation form are:

ASSETS $8795.50 – LIABILITIES $1556.67 = PROPRIETORSHIP $7238.83

R. A. French
Balance Sheet, September 30, 19

Assets:			
Cash		1247 85	
Notes Receivable		700	
Accounts Receivable			
Radio Shop	26550		
D. D. Julian	25960	525 10	
Merchandise Inventory		5627 90	
Store and Office Supplies		109 65	
Prepaid Insurance		100	
Equipment	50000		
Less Depreciation Reserve	1500	485	
Total Assets			8795 50
Liabilities			
Notes Payable		500	
Accounts Payable:			
Radio Manufacturing Co.	25150		
Russell & Russell	80517	1056 67	
Total Liabilities			1556 67
R. A. French, Present Capital			7238 83

Illustration 51, Balance Sheet, Report Form

Analysis of Proprietorship. From the information given in the Trial Balance and Balance Sheet columns of the Working Sheet an analysis of proprietorship was prepared as in the illustration at the right. This shows the net proprietorship at the beginning, the profit, drawings, and present proprietorship. This report may be made a part of the Balance Sheet or prepared separate from it.

Analysis of Proprietorship:		
R. A. French, Investment		$6,815.42
R. A. French, Drawing:		
Net Profit	$623.41	
Withdrawals	200.00	423.41
Present Capital		$7,238.83

Profit and Loss Statement. The information in the Profit and Loss Statement on page 237 was obtained from the Working Sheet on page 234. From this statement, R. A. French may ascertain the following information: (a) sales, (b) cost of sales, (c) profit on sales, (d) expenses, (e) net profit from

selling merchandise, (f) profit earned through interest income and purchases discount, (g) expenses because of interest paid and sales discount, and (h) net increase in proprietorship, that is, net profit.

R. A. French
Profit and Loss Statement for Month of September, 19

Income from Sales:						
Net Sales					5 1 2 4	45
Cost of Merchandise Sold:						
Inventory August 31	5 3 0 2	65				
Purchases	4 4 0 7	25				
Cost of Mdse Available for Sale			9 7 0 4	90		
Mdse Inventory September 30			5 6 2 7	90		
Cost of Merchandise Sold					4 0 7 7	
Gross Profit on Sales					1 0 4 7	45
Operating Expenses:						
Rent Expense			1 1 2	50		
Salary Expense			2 7 9	25		
Store and Office Supplies Used			2 7	50		
Expired Insurance			1	0		
Depreciation Expense				5		
Total Operating Expenses					4 3 4	25
Net Profit from Operations					6 1 3	20
Other Income:						
Interest Income				4 6 7		
Purchases Discount				7 9 6 5		
Total Other Income					8 4	32
Gross Income					6 9 7	52
Deductions from Income:						
Interest Expense				6 6 2		
Sales Discount				6 7 4 9		
Total Deductions from Income					7 4	11
Net Profit					6 2 3	41

Illustration 52, Profit and Loss Statement

Adjusting Entries. The entries in Illustration 53, page 238, record the adjustments shown in the Adjustments columns on the Working Sheet, Illustration 50.

The first entry transfers the merchandise inventory, September 1, to the Purchases account as indicated by $5,302.65 entered in the credit and debit Adjustments columns on the lines with Merchandise Inventory and Pur-

chases. The second entry transfers the amount of the September 30 inventory of merchandise from the Purchases account to the Merchandise Inventory account as indicated by the amounts entered in the debit and credit Adjustments columns on the lines with Merchandise Inventory and Purchases.

The purpose of the third, fourth, and fifth entries is to record the expense because of supplies used, expired insurance, and estimated depreciation as indicated by the amounts entered in the credit and debit Adjustment columns of the Working Sheet on a line with Store and Office Supplies, Prepaid Insurance and Depreciation Reserve, and Store and Office Supplies Used, Expired Insurance and Depreciation Expense. The reason for these adjustments is explained in connection with the Working Sheet and in Chapter XIII.

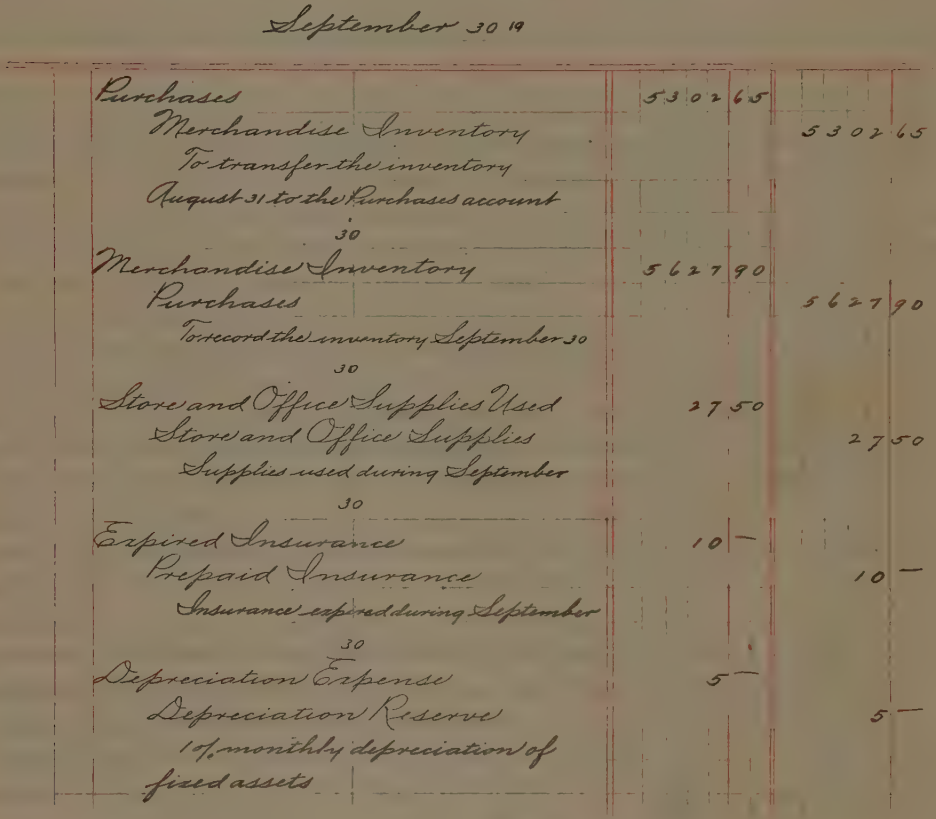


Illustration 53, Adjusting Entries

Closing Entries. The entries in Illustration 54 are to record the net profit shown on the Profit and Loss Statement, Illustration 52, in the Capital account. These entries also close the income, expense and Drawing accounts. The figures in each entry are those in the Profit and Loss columns of the Working Sheet; the account titles are those at the left and on the same line with the figures. Amounts entered in the Cost or Expense column are recorded as credits

and the amounts entered in the Income column as debits because the purpose of these entries is to close the accounts.

September 30 19

	Sales		5 1 2 4 4 5	
	Profit and Loss Summary			5 1 2 4 4 5
	To close the Sales account			
30				
	Profit and Loss Summary		4 0 7 7	
	Purchases			4 0 7 7 —
	To close the Purchases account			
30				
	Profit and Loss Summary		4 3 4 2 5	
	Rent Expense			1 1 2 5 0
	Salary Expense			2 7 9 2 5
	Store and Office Supplies Used			2 7 5 0
	Expired Insurance			1 0 —
	Depreciation Expense			5 —
	To close the operating expense accounts			
30				
	Interest Income		4 6 7	
	Purchases Discount		7 9 6 5	
	Profit and Loss Summary			8 4 3 2
	To close the Interest Income and Purchases Discount accounts			
30				
	Profit and Loss Summary		7 4 1 1	
	Interest Expense			6 6 2
	Sales Discount			6 7 4 9
	To close the Interest Expense and Sales Discount accounts			
30				
	Profit and Loss Summary		6 7 3 4 1	
	R. A. French, Drawing			2 0 0 —
	R. A. French, Capital			4 7 3 4 1
	To close the Profit and Loss Summary account			

Illustration 54, Closing Entries

When the closing entries are posted, all accounts in balance are ruled in the same manner as in the Model Set, Chapter XIV.

Post-closing Trial Balance. The illustration at the right shows the account balances on the ledger of R. A. French after the adjusting entries on page 238 and the closing entries on page 239 have been posted and the accounts in balance ruled. The accounts on this Trial Balance are the same as those on the Balance Sheet, page 236.

R. A. FRENCH
POST-CLOSING TRIAL BALANCE, September 30, 19...

	Cash	1247	85		
	Notes Receivable	700			
	Radio Shop	265	50		
	D. D. Julian	259	60		
	Merchandise Inventory	5627	90		
	Store and Office Supplies	109	65		
	Prepaid Insurance	100			
	Equipment	500			
	Depreciation Reserve			15	
	Notes Payable			500	
	Radio Manufacturing Co.			251	50
	Russell & Russell			805	17
	R. A. French, Capital			7238	83
		8810	50	8810	50

SUMMARY

Each transaction completed during the fiscal period affects either (a) the assets, (b) the liabilities, (c) the assets and liabilities, (d) the assets and proprietorship, (e) the assets and income or expenses, or (g) the liabilities and income or expenses. Each transaction is recorded so as to show its effect on assets, liabilities and proprietorship as follows:

DEBITS	*CREDITS*
(1) Increases in assets.	(1) Decreases in assets.
(2) Decreases in liabilities.	(2) Increases in liabilities.
(3) Decreases in proprietorship	(3) Increases in proprietorship.
(4) Increases in expense.	(4) Decreases in expense.
(5) Decreases in income.	(5) Increases in income.

CLASSIFICATION OF ACCOUNTS

The accounts on the ledger of R. A. French stated on the Trial Balance, page 235, classified as assets, liabilities, proprietorship, income, cost and expense are as follows:

ASSETS	LIABILITIES	PROPRIETORSHIP	INCOME	COST
Cash	Notes Payable	R. A. F., Capital	Sales	Purchases
Notes Receivable	Radio Mfg. Co.	R. A. F., Drawing	Int. Income	EXPENSE
Radio Shop	Russell & Russell		Pur. Disct.	Rent Exp.
D. D. Julian				Salary Exp.
Mdse. Inventory				Supplies Used
Store and Office Supplies				Exp. Insurance
Prepaid Insurance				Dep. Expense
Equipment				Int. Expense
—Depreciation Res.				Sales Disct.
				Collection Exp.

Reserve accounts may be classified as *minus* asset or *valuation* accounts. Purchases account may be classified as an expense or a cost; see page 171.

PRACTICE SET No. 3

The purpose of this practice set is to provide a review of the preceding chapters. The transactions to be recorded are those completed by R. A. French, the radio dealer referred to in this chapter, during the month of October. These may be recorded in the bound blanks provided in connection with Practice Set 2 or on loose sheets of paper ruled similar to the illustrations of books of original entry and ledgers in the text.

The work required is as follows:

(1) Opening a new ledger from the information given in the Balance Sheet, Illustration 51, which shows the financial condition of the business September 30.

(2) Recording the transactions outlined in the narrative.

Opening a new ledger as explained in Chapter XII, requires recording in the general journal and ledger the assets, liabilities and proprietorship shown on the Balance Sheet. The cash balance is posted from the journal entry but recorded in the cash book so that the cash book record will agree with the Cash account.

Before recording the opening entry in the general journal, write the titles of the accounts in the ledger as instructed on the inside back cover of the ledger used in Practice Set No. 3. If ruled sheets of ledger paper are to be used, write the account titles in the ledger and in the order stated in the list below; allow nine lines for the Notes Receivable account and seven lines for each of the other accounts, including the title.

Cash
Notes Receivable
Radio Shop
D. D. Julian
Dow Drug Company
M. D. Saylor
C. C. Winters
R. O. Davenport
Merchandise Inventory
Store and Office Supplies
Prepaid Insurance
Equipment
Depreciation Reserve
Notes Payable
Radio Manufacturing Co.
Russell & Russell
R. A. French, Capital
R. A. French, Drawing
Sales
Purchases
Rent Expense
Salary Expense
Miscellaneous Expense
Depreciation Expense
Store and Office Supplies Used
Expired Insurance
Interest Income
Purchases Discount
Interest Expense
Sales Discount
Profit and Loss Summary

Opening Entry

Record in the general journal and cash book the assets, liabilities and capital shown on the Balance Sheet, Illustration 51. This entry will require eight debits and five credits. Debit Equipment with the cost value of the equipment and credit Depreciation Reserve with the depreciation.

Post the opening entry; write "Balance" in the explanation column of each account.

When the instructor has approved the opening entry and the ledger, proceed with recording the October transactions below.

NARRATIVE OF OCTOBER TRANSACTIONS

October 1

No. 1. Gave the Seton Realty Company check for $112.50 in payment of October rent.

No. 2. Gave the Radio Mfg. Co. check for $243.95 in payment for the October 1 balance less 3% discount. This balance was recorded in the old ledger as purchase of September 21, terms 3/10—n/30.

No. 3. Sold the Radio Shop, 137 Grant St., City, terms 1/10—n/30, sale No. 501, $326.50.

October 2

No. 4. Received from D. D. Julian check for $59.60 and a 20-day 6% interest-bearing note for $200.00 in full for October 1 balance.

Record the check in the cash book and the note in the general journal.

October 3

No. 5. Paid cash $7.50 for October telephone bill.

Use the Miscellaneous Expense account for expenses of this kind.

No. 6. Borrowed $500.00 from the City National Bank. Issued a 60-day non-interest-bearing note as evidence of the loan. Received credit for the proceeds of the note less 8% discount.

Record in the general journal and cash book as illustrated on page 213; do not forget to place a check mark in the folio column opposite the appropriate account in each entry.

October 5

No. 7. Received from the Radio Shop a check for $15.50 and a 6% interest-bearing note dated today and maturing October 30 in full for October 1 balance.

No. 8. Bought from Radio Manufacturing Company, Buffalo, terms 3/10—n/30, invoice dated October 3, $1,061.40.

No. 9. Sold Dow Drug Company, 16th and May Streets, City, terms 2/10—n/30, sale No. 502, $721.32.

October 6

No. 10. Sent Russell & Russell a check for $797.12 in payment for October 1 balance less 1% discount. This balance was recorded in the old ledger as a purchase of September 26, terms 1/10—n/30.

Prove cash, balance $655.21, and post from all books of original entry; do not post the totals. Write the address of the customers and creditors in the ledger as you post. The address of each customer and creditor is a part of the account title, hence should appear in the ledger.

October 8

No. 11. Sold C. C. Winters, 45 Main St., Ashland, terms 3/10—n/30, sale No. 503, $1,298.75.

No. 12. Bought from Russell & Russell, St. Louis, terms 1/10—n/30, invoice dated October 6, $356.50.

October 10

No. 13. Bought from Radio Manufacturing Company, terms 3/10—n/30, invoice dated October 8, $927.80.

October 11

No. 14. Sold M. D. Saylor, 125 Boone Street, Atlanta, terms 1/10—n/30, sale No. 504, $35.00.

No. 15. Received from the Radio Shop a check for $323.23 for invoice of October 1 less discount.

October 12

No. 16. Sold the Radio Shop, terms 2/10—n/30, sale No. 505, $279.95.

October 13

No. 17. Bought from Russell & Russell, terms 1/10—n/30, invoice dated October 12, $332.90.

No. 18. Received from A. L. Powers, check for $300.00 for 30-day note dated September 13.

No. 19. Sold Dow Drug Company, terms 2/10—n/30, sale No. 506, $509.27.

No. 20. Sent the Radio Manufacturing Company check for $1,029.56 in payment for invoice of October 3 less discount.

Prove cash, balance $248.88, and post from all books of original entry except the totals.

October 15

No. 21. Received from the Dow Drug Company check for $706.89 for invoice of October 5 less discount.

No. 22. Sold R. O. Davenport, 700 Third Ave., City, terms 1/10—n/30, sale No. 507, $179.35.

October 16

No. 23. Paid cash for salaries to date, $142.50.

No. 24. Gave Russell & Russell check for $352.93 in payment for invoice of October 6 less discount.

October 18

No. 25. Sold C. C. Winters, terms 1/10—n/30, sale No. 508, $366.75.

No. 26. Received from C. C. Winters check for $1,259.79 for invoice of October 8 less discount.

No. 27. Sent the Radio Manufacturing Company check for $899.97 in payment for invoice of October 8 less discount.

October 19

No. 28. Bought from Radio Manufacturing Company, terms November 1, 3/10—n/30, invoice dated October 17, $721.25.

"November 1, 3/10–n/30" means that R. A. French has the privilege of deducting 3% discount if he pays the invoice before November 11. This is sometimes referred to as advance dating.

No. 29. Received check for cash sale of 1 receiving set, $78.50.

No. 30. Paid City Water Works cash, $2.50, for water.

October 20

No. 31. Received from M. D. Saylor check for $34.65 for invoice of October 11 less discount.

No. 32. The Radio Shop returned one No. 7 loud speaker and asked credit for the sale price, $12.50, to apply on the sale of the 12th.

No. 33. Sold M. D. Saylor, terms 1/10—n/30, sale No. 509, $169.54.

Prove cash, balance $930.81, and post from all books of original entry except the totals.

October 22

No. 34. Received from D. D. Julian check for $200.67 for note and interest due today.

No. 35. Bought from Russell & Russell, terms 1/10—n/30, invoice dated October 20, $176.50.

No. 36. Received from the Radio Shop check for $262.10 for invoice of October 12 less return and less discount.

No. 37. Gave C. W. Arnold check for $48.75 in payment for store and office supplies.

No. 38. Gave Russell & Russell check for $313.48 in payment for invoice of October 12 less discount per terms and less credit for $16.25, cost price of damaged loud speaker included with purchase and returned per agreement.

Record the return in the general journal and the cash in the cash book. The discount is deducted from the amount of the purchases invoice less the return.

October 23

No. 39. Returned to the Radio Manufacturing Company one No. 20 loud speaker, included in purchase of the 19th, and requested credit for $36.95, the purchase price. Paid $1.25 express charges and debited this to the Radio Manufacturing Company.

October 25

No. 40. Sold R. O. Davenport, terms 1/10—n/30, sale No. 510, $426.50.

No. 41. Received from R. O. Davenport check for $177.56 for invoice of October 15 less discount.

October 26

No. 42. Gave the Lawton Transfer Company check for $18.75 freight on purchase of October 22 from Russell & Russell. This firm is to deliver the merchandise to our freight station, hence this check is debited to their account.

October 27

No. 43. Sold Dow Drug Company, terms, 2/10—n/30, sale No. 511, $769.42.

No. 44. Bought from the Radio Manufacturing Company, per invoice dated October 25, $507.50; terms November 15, 3/10—n/30.

No. 45. Sold C. C. Winters, terms, 1/10—n/30, sale No. 512, $88.75.

Prove cash, balance $1,188.91, and post from all books of original entry except the totals.

October 29

No. 46. Received from Dow Drug Company check for $109.27 and a 30-day non-interest-bearing note for $400.00 for sale of October 13.

No. 47. Bought from Russell & Russell, terms, 1/10—n/30, invoice dated October 27, $228.50.

No. 48. Paid cash, $6.35, for gas and electricity.

October 30

No. 49. Gave the First National Bank check for $502.50 in payment of our note dated September 30 with interest at 6%.

No. 50. Received check from the Radio Shop for $151.04 and a 30-day 6% interest-bearing note for $100.00 for note dated October 5 and interest.

Record the face of the new note in the journal and the check in the cash book.

No. 51. Received from M. D. Saylor check for $167.84 for sale of October 20 less discount.

No. 52. Withdrew cash for personal use, $150.00.

No. 53. Received from R. O. Davenport a check for $202.00 and a 6% interest-bearing note due in 30 days for $200.00 in settlement for note for $400.00 due today and interest.

October 31

No. 54. Borrowed $1,000.00 from the City National Bank on note due in 30 days with interest at 6% and received credit for the face of the note

No. 55. Gave the Transfer Company check for $107.85, freight bills to date.

No. 56. Paid salaries for remainder of October, $139.75.

Instructions. (1) Prove cash, balance $1,912.61, and post from the books of original entry including the totals.

(2) Prepare a Trial Balance on an eight-column working sheet from the account balances in the ledger.

(3) From the account balances on the Trial Balance and the inventories and depreciation below complete the Working Sheet.

Merchandise Inventory, $5,915.38.
Store and Office Supplies Used, $29.80.
Expired Insurance, $10.00.
Depreciation, 1% per month.

(4) Prepare the Balance Sheet and the Profit and Loss Statement.
(5) Record in the general journal the adjusting and closing entries.
(6) Post the entries and rule all the accounts that balance.
(7) Prepare a Post-closing Trial Balance.

Exercise 92, Work at the Close of the Fiscal Period

From the information given in the Trial Balance and the notations below prepare (a) Working Sheet, (b) Balance Sheet as of November 30 and Profit and Loss Statement for the fiscal year ending November 30, (c) adjusting entries, and (d) closing entries.

C. L. BING
TRIAL BALANCE, November 30, 19...

Cash	5,816 44	
Notes Receivable	760 —	
Accounts Receivable	5,530 19	
Merchandise Inventory	4,114 55	
Store and Office Supplies	327 90	
Prepaid Insurance	250 —	
Office Equipment	1,250 —	
Depreciation Reserve		125 —
Notes Payable		1,500 —
Accounts Payable		4,414 32
C. L. Bing, Capital		11,527 50
C. L. Bing, Drawing	2,400 —	
Sales		62,717 57
Purchases	45,016 45	
Rent Expense	2,500 —	
Salary Expense	11,155 25	
Miscellaneous Expense	616 75	
Depreciation Expense		
Store and Office Supplies Used		
Expired Insurance		
Purchases Discount		587 40
Interest Income		32 65
Sales Discount	998 62	
Interest Expense	168 29	
	80,904 44	80,904 44

Notation:
Merchandise Inventory, $4,931.27.
Depreciation, 5%.
Store and Office Supplies Inventory, $187.65.
Prepaid Insurance, $80.50.

CHAPTER XXI

PARTNERSHIPS

When the assets of a business are owned by one person, the business is said to be a *sole proprietorship;* when they are owned by two or more persons under a partnership agreement, a *partnership.* The discussion in this chapter relates to the partnership, its purpose, formation, and operation.

Partnership. A contract relation existing between two or more persons who have associated their time, labor, skill and assets in some business enterprise for their profit is referred to as a *partnership,* and each member of this association, as a *partner.* The assets required to operate a business and the nature of the business operations will largely determine whether or not the partnership form of organization is desirable.

Two or more persons wishing to engage in a mercantile or manufacturing business may combine their property in order to provide the needed assets to operate the business. One who is operating a business as a sole proprietorship may wish to have as partners those occupying responsible positions in his organization. Two or more skilled mechanics may find it to their advantage to operate as a partnership. Two or more professional men may combine their services to take better care of their clients or to secure additional business.

The operation of either the sole proprietorship or partnership is to provide a profit for the owner or owners. The profit earned by the partnership is the same as that earned by the sole proprietorship in that it is an increase in the proprietorship of the business.

Assets and Proprietorship. Property is needed in the operation of a partnership the same as in a sole proprietorship. Liabilities may be incurred in the operations of the partnership the same as in a sole proprietorship. The value of the assets of a partnership business less the liabilities to be paid out of the assets, is the capital or proprietorship of the partnership. Each partner's proprietorship is determined by the agreement between the partners, or if there is no agreement, by law.

The proprietorship of a partnership stated in equation form usually is:

ASSETS − LIABILITIES = PROPRIETORSHIP

Applying this equation to the proprietorship of the Candy Kitchen operated by L. A. Day and W. H. Loy as equal partners with total assets $5,000.00 and total liabilities $1,000.00, the equation is:

ASSETS $5,000.00 − LIABILITIES $1,000.00 = L. A. DAY, PROP., $2,000.00 +
W. H. LOY, PROP., $2,000.00

Articles of Copartnership. The equity of each partner in the assets of the partnership is determined from the agreement between the partners, usually referred to as the *partnership agreement.* When this agreement is in writing it is referred to as the *articles of copartnership.* The partnership agreement should be in writing, signed by the partners, and each partner provided with a copy; this avoids any possible misunderstanding. This written agreement or articles of copartnership should contain the following information:

(1) The date of the agreement.
(2) The name and address of each partner.
(3) The nature of the business.
(4) The location of the business.
(5) The date the partnership is to begin operations and the time it is to continue these operations.
(6) The firm name under which it is to be operated.
(7) The amount each partner is to invest.
(8) The equity of each partner in the invested assets.
(9) The duties of each partner.
(10) The compensation allowed each partner for the performance of his duties.
(11) Each partner's share of the profit or loss resulting from the transactions completed.
(12) The method of distributing the profit or sharing the loss.
(13) Method of procedure in case of death or legal disability of either partner or other cause which might terminate the partnership relations.
(14) Restraint upon partners as to becoming surety, etc.

The illustration on page 249 shows the articles of copartnership under which R. S. Helm and A. N. Stein have agreed to operate a wholesale jewelry business as a partnership.

Relationship Between Partners. Each partner has agreed to all the articles in the partnership agreement as evidenced by his signature. If the operation of the business is to be successful, it is quite evident that each partner must do as he has agreed to do. It is also quite evident that if either partner fails to comply with any or all of the articles in the agreement that the operation of the business cannot be a success. Lack of good faith on the part of either partner in complying with the articles of agreement will affect the efficiency of the partnership and may result in its dissolution by the courts.

Method of Forming a Partnership. A partnership is formed when the partners have signed the articles of copartnership. After the agreement is signed, the operation of the partnership is governed entirely by the articles. When the investments stated in the partnership agreement have been made, it will be necessary to record them in the books of original entry and ledger. The entry to record the investment is referred to as the opening entry.

ARTICLES OF COPARTNERSHIP

THIS CONTRACT, made and entered into on the tenth day of December, 1928, by and between R. S. Helm of St. Louis, Missouri, and A. N. Stein of the same city and state.

WITNESSETH: That the said parties have this day formed a copartnership for the purpose of engaging in and conducting a wholesale jewelry business in the city of St. Louis under the following stipulations which are a part of this contract:

FIRST: The said copartnership is to continue for a term of four years from January 2, 1929.

SECOND: The business is to be conducted under the firm name of Helm & Stein at 516 S. Swan Street, St. Louis, Missouri.

THIRD: The investments are as follows: R. S. Helm, cash $12,500.00; A. N. Stein, cash $12,500.00. These invested assets are partnership property in which the equity of each partner is the same.

FOURTH: Each partner is to devote his entire time and attention to the business and to engage in no other business enterprise without the written consent of the other partner. The specific duties of R. S. Helm will be to have charge of the office and supervise the buying; A. N. Stein will have charge of the sales.

FIFTH: Each partner is to receive a salary of $6,000.00 per year, payable $500.00 per month in cash or merchandise at cost. These salaries are to be charged as operating expenses of the partnership.

SIXTH: The investment and transactions completed in the operation of the business are to be recorded in books of account in accordance with the standard accounting procedure. These books of account are to be open for the inspection of each partner. Monthly reports showing the present proprietorship of each partner and the net profit or loss resulting from the operation of the business during the month are to be prepared from the accounting records on the last day of each month. Each partner is to receive credit in his Capital account for one-half of the net profit shown by these monthly reports. Should the operation of the partnership result in a loss, one-half of this loss is to be debited to the Capital account of each partner.

SEVENTH: A Balance Sheet and a Profit and Loss Statement are to be prepared December 31 of each year, showing the proprietorship at the end of the year and the net profit or loss for the year. The annual Balance Sheet and Profit and Loss Statement are to be certified by a certified public accountant.

EIGHTH: Neither partner is to withdraw any part of his investment nor assets in anticipation of profits without the written consent of the other partner. Each partner is to have the privilege of withdrawing not more than 25% of the profit credited to his account, this withdrawal to be made after January 2 of the year following the one in which the profit is earned.

NINTH: In case of the death or legal disability of either partner the other partner is to continue the operation of the business until the close of the annual fiscal period December 31 next thereafter. At that time the continuing partner will be given an option of buying the interest of the other partner at not more than 10% above the value of the latter's proprietorship in the partnership at the close of the last annual fiscal period.

TENTH: During the operation of this partnership neither partner is to become surety nor bondsman for anyone without the written consent of the other partner.

ELEVENTH: At the conclusion of this contract, unless it is mutually agreed to continue the operation of the business under a new contract, the assets of the partnership after the liabilities are paid are to be divided in proportion to the net credit to each partner's Capital account on that date.

IN WITNESS WHEREOF, the parties aforesaid have hereunto set their hands and affixed their seals on the day and year above written.

R. S. HELM [SEAL]

A. N. STEIN [SEAL]

Illustration 55, Articles of Copartnership

Opening Entry for a Partnership. When the investment of each partner is cash only, the opening entry is made in the cash book. Each partner is credited in his Capital account with the amount of cash invested.

When a partnership is formed to continue the operation of a going business, the opening entry is made in the general journal from the Balance Sheet of the business. An account is debited for the value of each asset invested, an account is credited with the amount of each liability assumed, and the partner's Capital account credited with his net investment in the partnership.

The investment of each partner should agree with a description of his investment as stated in the articles of copartnership, hence the partnership agreement should be consulted in making the opening entry. If desired the articles of copartnership or a brief summary of the facts stated therein may be copied in the general journal. The usual plan is to file the Articles of Copartnership and refer to these in the opening entry so as to preserve as confidential the information contained in the partnership agreement.

The assets invested by each partner are his personal property until transferred to the partnership as his investment in it. Thereafter these assets are partnership property and neither partner can claim sole ownership in any specific asset or withdraw assets except as stated in the partnership agreement.

Opening Entry for Cash Investment. July 1. C. J. Snow and W. R. Greer form a partnership for the purpose of operating a retail business under the firm name of Snow & Greer. The partnership agreement states:

"C. J. Snow and W. R. Greer each invest cash, $4,000.00."

Each partner issues a check payable to Snow & Greer for $4,000.00. The entries in the partnership cash book to record these checks are:

CASH

					Receipts	
19						
July	1	C. J. Snow, Capital	Investment		4000	—
	1	W. R. Greer, Capital	Investment		4000	—

These two checks will be indorsed with the name of the partnership and deposited in the bank to the credit of an account under the title of the partnership. Checks issued authorizing the payment of partnership funds will be signed with the name of the partnership and the one authorized to write the checks. This authority will be indicated on a signature card at the time the account is opened with the bank.

Opening Entry from a Balance Sheet. April 1, L. A. Rude, a retail hardware merchant, forms a partnership with C. J. Apple to continue the operation of his business. The partnership agreement states:

"L. A. Rude invests $7,336.48, his proprietary interest in the hardware business located at 718 Main St., as shown by the Balance Sheet prepared March 31 which is made a part of this agreement. The partnership assumes the liabilities shown by this Balance Sheet. C. J. Apple invests cash, $7,336.48."

The Balance Sheet referred to as part of this agreement is:

L. A. RUDE
BALANCE SHEET, March 31, 19

Assets:			Liabilities:		
Cash	1246	55	Notes Payable	1000	—
Notes Receivable	325	40	Accounts Payable	1427	68
Accounts Receivable	1972	80			
Merchandise Inventory	5623	78	Total Liabilities	2427	68
Equipment 640.00			Proprietorship:		
Less Dep. Reserve 120.00	520	—	L. A. Rude, Capital	7336	48
Supplies	75	63			
Total Assets	9764	16	Total Liabilities and Proprietorship	9764	16

The general journal entry at the right and the cash book entries below record the investments of the partners. The value of each asset shown on the Balance Sheet of L. A. Rude is recorded as a debit to the appropriate account, the amount of each liability as a credit to the appropriate account, and the equity of L. A. Rude as a credit to his Capital account. The equipment is recorded at its book value because to the partnership this value is the cost value. Future depreciation will be based on the cost price to the partnership and not on the original cost price.

			April 1, 19				
		√	Cash		1246	55	
			Notes Receivable		325	40	
			Accounts Receivable		1972	80	
			Merchandise Inventory		5623	78	
			Equipment		520	—	
			Supplies		75	63	
			Notes Payable				1000 —
			Accounts Payable				1427 68
			L. A. Rude, Capital				7336 48
			To record the investment, per Articles of Copartnership.				

CASH

19					Receipts		
April	1	√	L. A. Rude, Capital	Investment	1246	55	
	1		C. J. Apple, Capital	Investment	7336	48	

The entries in the cash book are necessary because all cash received is recorded in this book. Since the account with L. A. Rude is credited with his equity in the assets from the journal entry, a check mark is placed in the folio column in the cash book to avoid double posting. Since the Cash account will be debited at the end of the month with the total cash received, a check mark is placed in the folio column in the general journal.

The cash belonging to L. A. Rude will be transferred to the partnership by a check made payable to the partnership. The check invested by C. J. Apple will be signed by him and made payable to the partnership. The partnership agreement is sufficient authority for transfer of title to the merchandise, equipment and supplies, also for recording the liabilities assumed by the partnership.

The Balance Sheet below was prepared from the account balances resulting from posting the opening entries on page 251:

RUDE & APPLE
BALANCE SHEET, April 1, 19

Assets:			Liabilities:		
Cash	8583	03	Notes Payable	1000	—
Notes Receivable	325	40	Accounts Payable	1427	68
Accounts Receivable	1972	80			
Merchandise Inventory	5623	78	Total Liablities	2427	68
Equipment	520	—	Proprietorship:		
Supplies	75	63	L. A. Rude, Capital	7336	48
			C. J. Apple, Capital	7336	48
Total Assets	17100	64	Total Liabilities and Proprietorship	17100	64

Exercise 93, Opening Entries

(ORAL OR WRITTEN)

1. What entry will be required to record the investment of Helm & Stein stated in the agreement on page 249?

2. The articles of copartnership signed by C. L. Oaks and L. G. Murphy states: "Each partner is to invest cash, $5,000.00." What entry will be required to record this investment?

3. The partnership agreement between Murphy and Oaks states: "The business is to be operated under the firm name of the Economy Furniture Company." (a) To whom will the checks issued by each partner for his investment be made payable? (b) How will the checks be recorded? (c) How will the checks be indorsed when deposited in the City National Bank?

4. The partnership agreement between Murphy and Oaks states: "All money belonging to the partnership is to be deposited in the bank and all cash payments are to be made by check issued by Murphy. How will each check be signed?

5. The partnership agreement signed by C. C. Hostetler and O. P. Joy states: "C. C. Hostetler invests merchandise, $3,000.00 and cash, $2,000.00; O. P. Joy invests cash, $4,000.00." State the entries in the books of original entry to record these investments.

6. The partnership agreement signed by M. D. Lang and D. J. Stall states: "M. D. Lang invests his equity in the assets of the business he has been operating as shown by the Balance Sheet prepared June 30. D. J. Stall invests cash, $4,000.00." The proprietorship on Lang's Balance Sheet is:

ASSETS $8000.00 − LIABILITIES $2000.00 = M. D. LANG, PROP., $6000.00

One-fourth of the assets are cash, one-eighth notes receivable, one-fourth accounts receivable, one-eighth equipment, and the balance merchandise inventory. The liabilities are equally divided between notes payable and accounts payable. State the required opening entry.

Exercise 94, Opening Entry for a Partnership

October 1. James Beal and A. L. Knapp form a partnership for the purpose of continuing the retail business which Mr. Beal has been operating. The partnership agreement states:

> "James Beal invests $9418.15, his net proprietorship in the business located at 725 Fifteenth St., as shown by the Balance Sheet prepared September 30, which is made a part of the contract. The partnership assumes the liabilities shown on this Balance Sheet.
>
> "A. L. Knapp invests cash, $9418.15."

The Balance Sheet referred to is shown below:

JAMES BEAL
BALANCE SHEET, September 30, 19

Assets:			Liabilities:		
Cash	1316	80	Notes Payable	2000	—
Notes Receivable	280	—	Accounts Payable	3118	62
Accounts Receivable	4116	75			
Merchandise Inventory	7815	62	Total Liabilities	5118	62
Equipment 1250.00			Proprietorship:		
Less Dep. Reserve 375.00	875	—	James Beal, Capital	9418	15
Supplies	132	60			
Total Assets	14536	77	Total Liabilities and Proprietorship	14536	77

Instructions. (1) Record the required opening entries.

(2) Post these entries; allow four lines for each account.

(3) Prepare a Balance Sheet from the account balances similar to the form at the top of page 252.

Exercise 95, Opening Entries

W. H. Baird, a retail coal dealer, and C. L. Shoe, a retail dealer in contractors' supplies, agree to combine their businesses and to operate as a partnership. The partnership agreement states: "Each partner is to invest the assets of his present business as shown by his Balance Sheet prepared at the close of the business May 31. The partnership assumes the liabilities shown on each Balance Sheet. Each partner is to invest sufficient cash to make the capital $5,000.00, equally divided between the partners."

The Balance Sheets referred to in the articles of copartnership are shown at the top of page 254.

Instructions. (1) Record the opening entries in the general journal and cash book. The amount of the additional cash received from each partner will be the difference between his proprietary interest shown on his Balance Sheet and $2,500.00.

(2) Post these entries; allow four lines for each account.

(3) Prepare a Balance Sheet from the account balances.

W. H. Baird
Balance Sheet, May 31, 19

Assets:				Liabilities:	
Cash	870	14		Notes Payable	300 —
Notes Receivable	856	63		Accounts Payable	357 52
Accounts Receivable	277	65			
Merchandise Inventory	319	64		Total Liabilities	657 52
Prepaid Insurance	22	50			
Office Equipment 250.00				Proprietorship:	
Less Dep. Reserve 15.00	235	—		W. H. Baird, Capital	1924 04
Total Assets	2581	56		Total Liabilities and Proprietorship	2581 56

C. L. Shoe
Balance Sheet, May 31, 19

Assets:				Liabilities:	
Cash	364	25		Notes Payable	500 —
Notes Receivable	240	—		Accounts Payable	339 10
Accounts Receivable	252	48			
Merchandise Inventory	1201	40		Total Liabilities	839 10
Prepaid Insurance	60	—			
Delivery Equipment 760.00				Capital:	
Less Dep. Reserve 20.00	740	—		C. L. Shoe, Capital	2019 03
Total Assets	2858	13		Total Liabilities and Capital	2858 13

OPERATION OF A PARTNERSHIP

The Transactions Completed by a Partnership do not differ from those completed by a sole proprietorship when the nature of the business is the same. Creditors may inquire into the ownership of assets in order to determine a credit rating for the firm but customers will not be interested in the form of organization under which the business operates.

Books of Account. Each transaction is recorded in a special journal or the general journal and posted to the ledger. The nature of the business will determine the books of account required to record the transaction in an efficient manner. In a mercantile business similar to that operated by Helm & Stein as outlined in the agreement on page 249, the books of account will consist of a purchases journal, sales journal, general journal, cash book and ledger.

Recording the Transactions. Each transaction is recorded so as to show its effect on one or more of the elements in the equation "Assets = Liabilities + Proprietorship."

Increases in assets, increases in expenses, decreases in proprietorship and decreases in liabilities are recorded as debits in the appropriate accounts.

Decreases in assets, increases in liabilities, increases in proprietorship and increases in income are recorded as credits to the appropriate accounts.

The cost of sales and the expense because of supplies used and depreciation on equipment are recorded at the close of the fiscal period.

Transactions with the Partners. The partnership will perform some transactions with each partner. These transactions relate largely to the investments and withdrawals of the partners. The method of recording transactions with partners should be specifically outlined in the articles of copartnership so that there may be no possibility of a misunderstanding. Investments as stated in the agreement are recorded in the partner's Capital account. Withdrawals authorized by the agreement are recorded in an account with Partners Salaries or in the drawing accounts of the partners.

For income tax purpose all withdrawals are regarded as anticipation of profit, hence they should be recorded so that this information may be secured from account balances. The partners may regard their salaries as operating expenses of the partnership, but the total salaries for the year must be added to the net profit for the year when reporting partnership income for taxation.

Salaries of the Partners. The partnership agreement on page 249 states: "Each partner is to receive a salary of $6,000.00 per year, payable $500.00 per month . . . to be charged as operating expense of the partnership." This means that each partner is entitled to receive $500.00 worth of partnership assets each month as compensation for his services. Since this compensation is regarded as an expense, each transaction in which a partner withdraws his authorized salary will result in a decrease in the asset cash and an increase in expense. The title of the account debited is *Partners Salaries.* The entry to record the partners' salaries when paid, January 31, is:

				CASH	
					Payments
19 Jan.	31		Partners Salaries	Partners' salaries for January	1000—

Drawings by each Partner. When salaries are withdrawn in cash or merchandise at various times during the month, it will be necessary to record the amount of each withdrawal by a partner in an account with him. The title of this account is usually the name of the partner with the word "Drawing" written after it. Since the drawings are in anticipation of authorized salary, the Partners Salary account is debited and the partner's Drawing account credited at the end of the month for the amount of his monthly salary.

The partnership agreement may authorize each partner to withdraw assets in anticipation of profit in addition to his salary; these withdrawals are charged to the partners' Drawing accounts. At the close of each fiscal period, the balance of the Partners Salaries account shows the total withdrawals because of salaries and the balance of each partner's Drawing account the total withdrawals in excess of salaries. The total withdrawals in anticipation of profit is the sum of the balances of the Partners Salaries account and each partner's Drawing account. The net profit for income tax purpose is the net profit shown by the Profit and Loss Statement plus the sum of the balances referred to in the preceding sentence.

The partnership agreement between W. H. Mann and C. L. Moon who operate the Economy Grocery Store as equal partners, states: "Each partner is to receive a salary of $300.00 per month."

May 10. Each partner withdrew $50.00 cash to apply on account of salary.

The entry in the cash book to record this withdrawal is:

			CASH		Payments
19					
May	10	W. H. Mann, Drawing	Account of salary		50 —
	10	C. L. Moon, Drawing	Account of salary		50 —

May 31. Credited each partner for his salary.

The entry in the illustration at the right shows the method of recording this transaction in the general journal. The Partners Salaries account is debited for the sum of the two salaries and the Drawing account with each partner credited for the authorized salary. All drawings of cash or merchandise during each month are debited to the Drawing account and at the end of the month the Drawing account is credited for the authorized salary.

May 31, 19

Partners Salaries	600 —		
W. H. Mann, Drawing		300 —	
C. L. Moon, Drawing		300 —	
Partners' salaries for month of May.			

Proprietorship of Each Partner. The third and sixth articles in the partnership agreement on page 249 provide a basis for ascertaining the proprietary interest of each partner in the proprietorship of the partnership. The invested capital is recorded in the Capital account with each partner. At the close of each fiscal period, the net profit as shown by the balance of the Profit and Loss Summary account is transferred to the account with each partner.

At the close of the first monthly fiscal period, the credit balance of the Profit and Loss Summary account on the ledger of Helm & Stein was $1,840.80. The entry to transfer this balance to the partners' Capital accounts is in the illustration at the right. The profit is divided equally between the partners, hence each partner is credited in his Capital account for one-half the net profit. When this entry is posted, the balance of the Capital account with each partner will show his proprietorship in the partnership.

January 31, 19

Profit and Loss Summary	1840 80		
R. S. Helm, Capital		920 40	
A. N. Stein, Capital		920 40	
To close the Profit and Loss Summary account.			

Withdrawals from Capital. The withdrawals from capital in a partnership are the same as the withdrawals from capital of a sole proprietor. In a partnership, however, there must be an agreement between the partners as

to the amount to be withdrawn and the time the withdrawal may be made.

The eighth paragraph in the partnership agreement on page 249 provides for withdrawal of earned profit. The partners have agreed that each partner is to have the privilege of withdrawing not more than 25% of the profit earned during any one fiscal year, the withdrawal to be made after January 2 of the following year.

January 10, 1929. Each partner withdraws $500.00 of the earned profit credited to his Capital account.

It may be assumed that the $500.00 is less than 25% of the profit earned during the twelve months of 1928.

The entries in the cash book to record these withdrawals are:

CASH

					Payments
1929					
Jan.	10	R. S. Helm, Capital	Withdrawal		500 —
	10	A. N. Stein, Capital	Withdrawal		500 —

Admission of a Partner. The partners may agree to admit a new partner at any time. Admitting a new partner necessitates a new partnership agreement. The nature of this agreement will determine the entries to record the assets invested by the new partner.

An appropriate account is debited for the value of each asset invested by the new partner and his Capital account is credited for the sum of the assets invested by him. If liabilities to be paid out of the assets invested by the new partner are assumed by the partnership, they will be recorded as credits in the appropriate accounts and deducted from the value of the assets to ascertain the credit to the new partner's Capital account.

The admission of a new partner begins a new fiscal period. This means that a Balance Sheet and a Profit and Loss Statement must be prepared and the ledger closed before the assets or assets and liabilities of the new partner are recorded. The credit balance of the Capital account with each partner at the beginning of the new business should agree with the amount of his investment stated in the partnership agreement. A further discussion of this subject is given in connection with good will in a subsequent chapter.

Retirement of a Partner. One or more partners may retire at any time during the life of the partnership agreement, upon the consent of the remaining partners. The retirement of a partner cancels the partnership agreement and requires a new agreement to be signed by the remaining partners. If the retirement of one or more partners leaves the business to be operated as a sole proprietorship, no new agreement is required.

The agreement with the retiring partner will determine the method crediting the assets given him or recording the liability incurred because of his retirement. It is evident that a partner would not retire without receiving his share of the partnership property or a promise to receive it in the future.

The retirement of a partner will necessitate closing his Capital account. If the assets given him are equal to the balance of his account, the assets and

proprietorship of the new business will be reduced by an amount equal to the balance of the retiring partner's capital account. If the assets given a retiring partner are of less value than the balance of his Capital account, the capital of the remaining partners will be increased by his retirement. This increase is recorded as a credit to the partners capital accounts. If the retiring partner is given assets of greater value than the balance of his Capital account, the capital of the remaining partners is decreased. This decrease is recorded as a debit to the partners capital accounts.

Sometimes one partner will buy the interest of another. The agreement between the partners will not affect the entry to adjust the two partners' accounts, but it will be necessary to transfer the balance of the Capital account of the retiring partner to the Capital account of the partner who has purchased his interest.

SUMMARY

Partnership Agreement. The assets invested by each partner are partnership property and neither partner can claim them or any part of them as his individual property. Investments and withdrawals are controlled by the partnership agreement which should always be in writing. The investments and withdrawals should be so recorded that the equity of each partner in the proprietorship of the partnership as stated in the partnership agreement may be determined at the close of each fiscal period.

The Capital Account with each partner is a record of the increases and decreases in the investment of the partner. The Capital account with each partner is *credited* with investments and with net profit and *debited* with withdrawals from capital and with net loss. The *credit* balance at the beginning of each fiscal period shows the partner's proprietary interest in the proprietorship of the partnership; during the fiscal period it shows his net investment.

The Partners Salaries Account is a record of withdrawals for compensation by the partners as specified in the partnership agreement. This account is *debited* for all withdrawals of salaries. The *debit* balance is the total expense because of salaries paid the partners as specified in the partnership agreement; it is closed into the Profit and Loss Summary account.

The Drawing Account with each partner contains a record of the partner's withdrawals in anticipation of profit as authorized by the partnership agreement. This account is *debited* for the partner's withdrawals of cash, merchandise or other property. The *debit* balance of the partner's Drawing account is the total withdrawals in addition to salary. It is a deduction from the partner's share of the profit for the period and is closed into his Capital account.

When a partner withdraws his salary in small amounts at various times, these withdrawals are debited to his Drawing account. At the end of the month the Drawing account is credited with his authorized salary. If a partner does not withdraw all of his salary, his account will show a credit balance which is an addition to his proprietary interest in the partnership, as recorded in his Capital account.

Exercise 96, Salary and Withdrawals

(ORAL OR WRITTEN)

1. The partnership agreement signed by B. A. Otis and G. L. Land states: "Each partner is to receive a salary of $3000.00 per year. No other withdrawals are to be made except from recorded profits, 25% of which may be withdrawn within sixty days from January 1 of each year." What entry is required to record the monthly withdrawal of salary by each partner at the end of the month?

2. At the close of the first annual fiscal period, December 31, the credit balance of the Profit and Loss Summary account on the ledger of Otis and Land is $2,156.50. What entry will be required to close the Profit and Loss Summary account into the partners' accounts, the profit being divided equally.

3. February 1 of the second year, B. A. Otis and G. L. Land each withdrew his authorized share of the profit mentioned in Question 2. What entry is required to record this withdrawal from capital?

4. The partnership agreement between R. L. Davis and C. C. Davis states: "Each partner is to receive a salary of $3,000.00 per year which is to be regarded as an operating expense of the business." Salaries are withdrawn in cash or merchandise as needed by the partners. May 10, R. L. Davis took merchandise from stock for home use, cost $25.00. What entry is required to record this withdrawal?

5. May 12, C. C. Davis (Question 4) withdrew $50.00 cash to apply on salary. What entry is required to record this withdrawal?

6. May 31, the Drawing account of each partner (Question 4) was credited with his authorized monthly salary. What entry was required to record the salaries?

7. The accounts below are on the ledger of Davis Bros. R. L. Davis receives 40% of the profit and C. C. Davis 60%. State the journal entry to close the Profit and Loss Summary account into the partners' Capital accounts.

P. & L. Summary		R. L. Davis, Cap.		C. C. Davis, Cap.	
	17600.00		15418.50		21500.00

Exercise 97, Combining Two Businesses

B. A. Stanford and M. C. Finley each operated a retail store on opposite sides of the same street. June 1, they formed a partnership for the purpose of combining the two stores. The partnership agreement states:

> "B. A. Stanford is to invest $3096.02, his net proprietorship in the business operated at 916 May St., as shown by the Balance Sheet of May 31, which is made a part of this contract. M. C. Finley invests $4555.77, his net proprietorship in the business operated at 913 May St., as shown by the Balance Sheet of May 31 which is made a part of the contract. The partnership assumes the liabilities shown on both Balance Sheets."

B. A. Stanford
Balance Sheet, May 31, 19

Assets:			Liabilities:		
Cash	516	50	Notes Payable	500	—
Merchandise Inventory	4137	92	Accounts Payable	1615	80
Supplies	116	90	Proprietorship:		
Equipment 650.00			B. A. Stanford, Prop.	3096	02
Less Dep. Reserve 209.50	440	50			
Total Assets	5211	82	Total Liabilities and Proprietorship	5211	82

M. C. Finley
Balance Sheet, May 31, 19

Assets:			Liabilities:		
Cash	568	15	Notes Payable	1000	—
Merchandise Inventory	5517	22	Accounts Payable	1121	50
Supplies	91	90			
Equipment 750.00			Proprietorship:		
Less Dep. Reserve 250.00	500	—	M. C. Finley, Prop.	4555	77
Total Assets	6677	27	Total Liabilities and Proprietorship	6677	27

Instructions. Prepare the opening entries to record the facts shown on the Balance Sheets.

Exercise 98, Work at the Close of a Fiscal Period

The Quick Service Cafeteria is owned and operated by L. J. Wayne and M. D. Dale. The Trial Balance in the illustration at the right shows the account balances at the close of the quarterly fiscal period, July 31. The inventory of meats, vegetables, canned goods, etc. is $862.58, and office supplies $8.75. The unexpired insurance is $188.95. The annual depreciation on equipment is 10% of the cost price.

The Quick Service Cafeteria
Trial Balance, July 31, 19

Cash	6596	55		
Merchandise Inventory	675	55		
Office Supplies	79	80		
Prepaid Insurance	216	50		
Equipment	6035	—		
Depreciation Reserve			747	75
Notes Payable			500	—
L. J. Wayne, Capital			5476	50
M. D. Dale, Capital			3651	—
Sales			25901	71
Purchases	11452	91		
Kitchen Expense	4124	75		
Restaurant Expense	4895	80		
Office Expense	2500	—		
Purchases Discount			331	15
Interest Expense	31	25		
	36608	11	36608	11

Instructions. Prepare a Working Sheet, Balance Sheet, Profit and Loss Statement, and adjusting and closing entries; present proprietorship, $12,293.20; net profit, $3,165.70. L. J. Wayne receives three-fifths of the profit and M. D. Dale two-fifths.

CHAPTER XXII

BUYING AND SELLING MERCHANDISE

Buying and selling merchandise and the method of recording transactions resulting from the purchase and sale of merchandise was discussed and illustrated in previous chapters. The purpose of the discussion in this chapter is (a) to show the correlation between the buying and selling of merchandise and the business forms usually used for this purpose, and (b) to show in one group the accounts which contain information regarding the purchase and sale of merchandise.

Buying Merchandise. The merchant buys the merchandise which he sells. The wholesale merchant usually buys from the manufacturer, the retail merchant from the wholesale merchant, and the consumer from the retail merchant. In some lines of merchandise, the manufacturer sells direct to the retail merchant or to the consumer. Wholesale and retail merchants usually secure their merchandise through placing orders with traveling salesmen who submit samples or through ordering by mail. The consumer usually buys over the counter or by telephone.

The usual process for securing the merchandise offered for sale by the wholesale or retail merchant may be briefly described as follows:

(1) A written requisition for the needed merchandise issued by the stock clerk, the one authorized to keep the stock of merchandise.

(2) The purchase order issued to the vendor by the purchasing agent, the one authorized to make purchases.

(3) The purchase invoice prepared by the vendor and sent to the purchasing agent as an acknowledgment of his purchase order.

(4) The delivery ticket, if the purchase is made from a local firm, or the bill of lading or way-bill issued by the transportation company, if purchased out of town.

(5) The freight or express bill which is the bill for transportation charges when the merchandise is not purchased from a local firm.

(6) The drayage bill from the transfer company for the drayage cost of hauling from the freight station when the merchandise is shipped by freight.

Illustrations. The buying procedure is further explained by illustrations. These apply to a purchase of merchandise by the Hall Hardware Company from the Lang Bros. Hardware Company, requisitioned by L. G. Peck, the stock clerk, and ordered by W. H. Peters, the purchasing agent.

The Requisition in the illustration at the top of page 262 is a written request by L. G. Peck, the stock clerk for the Hall Hardware Co., to W. H. Peters, the purchasing agent, for merchandise to be ordered as specified.

This requisition was issued in duplicate; the original was given to the purchasing agent and the duplicate was retained by the stock clerk. A requisition of merchandise is not a transaction, hence no entry is required in a journal.

HALL HARDWARE CO.
INCORPORATED

REQUISITION No. D-386

Purchase Requisition

Required for Department B — Date Issued April 12

Advise Mr. Allen on delivery — Date Required April 25

QUANTITY	DESCRIPTION
5 Doz. Each	24" and 26" hand saws
5 "	24" panel saws
3 "	scissors
5 " Sets	knives and forks
6 "	pocket knives

Approved by L. E. Mason — Requisition Placed by L. G. Peck

PURCHASING AGENT'S MEMORANDUM

Purchase Order No. 754 — Issued to Lang Bros. Hardware Co. Crown Point

Date April 13

The Purchase Order in the illustration below is the result of the requisition in the preceding illustration. This order was issued in triplicate. The original as illustrated was mailed to the Lang Bros. Hardware Company; one copy, retained by the purchasing agent and the other, by the receiving department. An order for merchandise is not a transaction, hence no entry is required in a journal.

PURCHASE ORDER No. 754

HALL HARDWARE CO.
INCORPORATED
LANSING

To Lang Bros. Hardware Co., 28 Long St., Crown Point — Date April 13 19__

Ship Via Pa. R. R.

F. O. B. Crown Point

Deliver On or before April 25 — Terms 30 days

QUANTITY		DESCRIPTION	PRICE
5 Doz.	#16	24" Hand Saws	22.90
5 "	#17	26" Hand Saws	26.00
5 "	#18D	24" Panel Saws	24.75
3 "	#60	Scissors	10.40
5 "	#2008	Knives & Forks	29.75
6 "	#97	Pocket Knives	14.60

W. H. Peters
Purchasing Agent

The Invoice in the illustration at the top of page 263 is the result of the purchase order in the illustration above. The check marks indicate that each item of information has been verified. The "2 doz. No. 97" was entered on the

LANG BROS. HARDWARE CO.

HARDWARE AND PAINT

Exclusive Agents "Mason Paint"

28 Long St., Crown Point — Invoice No. 38142

Date April 17 — Cust. Order No. 754

Sold to Hall Hardware Company, 18 Center St., Lansing

Shipped to Hall Hardware Company, 18 Center St., Lansing

Shipped Via Pa. R. R. — Terms: Net 30 days.

AMOUNT ORDERED	AMOUNT SHIPPED	PIECE NUMBER	DESCRIPTION	PRICE	PER	AMOUNT
5 Doz.	5 Doz. ✓	#16	24" Hand Saws	22.90	Doz.	114.50 ✓
5 "	5 " ✓	#17	26" Hand Saws	26.00	"	130.00 ✓
5 "	5 " ✓	#18D	24" Panel Saws	24.75	"	123.75 ✓
3 "	3 " ✓	#60	Scissors	10.40	"	31.20 ✓
5 "	5 " ✓	#2008	Knives & Forks	29.75	"	148.75 ✓
6 "	4 " ✓	#97	Pocket Knives	14.60	"	58.40 ✓
						606.60 ✓

SHORTAGE BACK ORDERED. 2 doz #97

invoice by a clerk for Lang Bros. to indicate that only 4 doz. of this item were in stock and the other 2 doz. have been *back ordered* and will be shipped later. A purchase of merchandise is a transaction hence the purchase is recorded in the purchases journal.

Uniform Domestic Straight Bill of Lading Adopted by Carriers in Official, Southern and Western Classification Territories, March 15, 1922)

UNIFORM STRAIGHT BILL OF LADING--ORIGINAL--NOT NEGOTIABLE

(Prescribed by the Interstate Commerce Commission)

Shipper's No.

Pa. R. R. Company

Agent's No.

RECEIVED, subject to the classifications and tariffs in effect on the date of the issue of this Bill of Lading.

at Crown Point, Ill., April 17, 19__ From LANG BROS. HARDWARE CO.

the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, and destined as indicated below, which said company (the word company being understood throughout this contract as meaning any person or corporation in possession of the property under the contract) agrees to carry to its usual place of delivery at said destination, if on its own road or its own water line, otherwise to deliver to another carrier on the route to said destination. It is agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions not prohibited by law, whether printed or written, herein contained, including the conditions on back hereof, which are hereby agreed to by the shipper and accepted for himself and his assigns.

(Mail or street address of consignee — For purposes of notification only. 18 Center St.)

Consigned to The Hall Hardware Co.

Destination Lansing State of Mich. County of

Route

(Delivering Carrier) Car Initial Car No.

No. Packages	Description of Articles, Special Marks and Exceptions	*WEIGHT (Subject to Correction)	Class or Rate	Check Column
2	cases hardware	255#		
1	case cutlery	150#		

If this shipment is to be delivered to the consignee without recourse on the consignor, the consignor shall sign the following statement:

The carrier shall not make delivery of this shipment without payment of freight and all other lawful charges. (See section 7 of conditions.)

(Signature of Consignor)

If charges are to be prepaid, write or stamp here, "To be Prepaid."

Received $ to apply in prepayment of the charges on the property described hereon.

Agent or Cashier

Per (The signature here acknowledges only the amount prepaid.)

Charges Advanced: $

*If the shipment moves between two ports by a carrier by water, the law requires that the bill of lading shall state whether it is "carrier's or shipper's weight." Note — Where the rate is dependent on value, shippers are required to state specifically in writing the agreed or declared value of the property. The agreed or declared value of the property is hereby specifically stated by the shipper to be not exceeding

LANG BROS. HARDWARE CO., *Shipper, Per* _____ *Agent, Per* _____

Permanent post-office address of shipper, CROWN POINT, ILL.

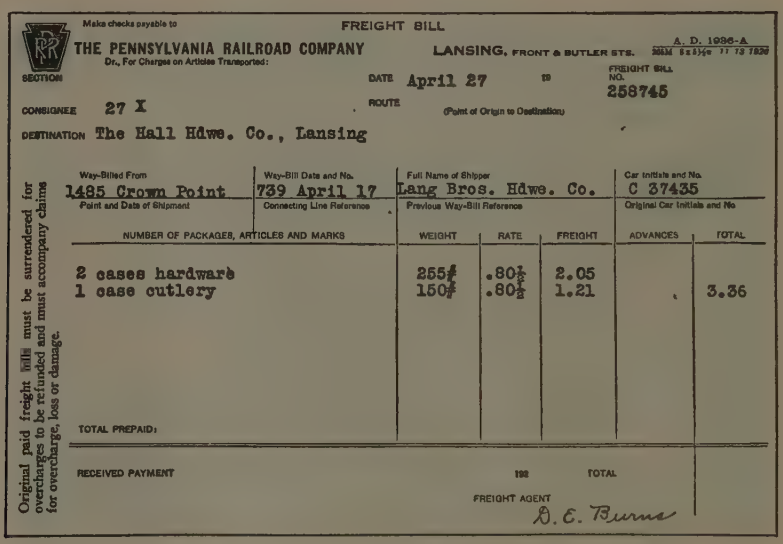
The Hamilton Autographic Register Co., Hamilton, O.

The Bill of Lading in the illustration above is the original copy obtained by Lang Bros. Hardware Co. from the railroad to which the merchandise in the purchase invoice above was delivered for shipment. This bill of lading was

prepared in triplicate. The original as illustrated was mailed to the Hall Hardware Co., one copy retained by the railroad agent and the other by the Lang Bros. Hardware Co. Receiving a bill of lading as evidence of a freight shipment is not a transaction, hence no entry is required in a journal.

The railroads in the United States are under the jurisdiction of the Interstate Commerce Commission. The Commission has set up certain regulations regarding the bills of lading. Three of these are (1) the size, (2) the number of copies to be prepared and (3) the color of the paper on which the copies are to be printed. The size of the bill of lading and color of the paper to be used are regulated for the convenience of the buyer, the seller and the transportation company. Three copies are prepared, (1) the *original* which is mailed to the buyer, (2) the *shipping order* which is retained by the railroad, and (3) the *memorandum* which is retained by the seller. The printed forms prepared for the bill of lading are so arranged that these three copies may be made at the same time through the use of carbon paper.

The Freight Bill in the illustration below is for the transportation charges on the merchandise referred to in the invoice and bill of lading illustrated on page 263. This freight bill indicates that the merchandise delivered to the transportation company by Lang Bros. Hardware Co. is now at the freight station of Hall Hardware Company. It also serves to notify the Hall Hardware Co. of the amount due for freight charges.



Make checks payable to

FREIGHT BILL

THE PENNSYLVANIA RAILROAD COMPANY

Dr., For Charges on Articles Transported:

LANSING, FRONT & BUTLER STS.

A. D. 1936-A

SECTION

DATE April 27 19

FREIGHT BILL NO. 258745

CONSIGNEE 27 X

ROUTE

(Point of Origin to Destination)

DESTINATION The Hall Hdwe. Co., Lansing

Way-Billed From / Point and Date of Shipment	Way-Bill Date and No. / Connecting Line Reference	Full Name of Shipper / Previous Way-Bill Reference	Car Initials and No. / Original Car Initials and No.
1485 Crown Point	739 April 17	Lang Bros. Hdwe. Co.	C 37435

NUMBER OF PACKAGES, ARTICLES AND MARKS	WEIGHT	RATE	FREIGHT	ADVANCES	TOTAL
2 cases hardware	255#	.80½	2.05		
1 case cutlery	150#	.80½	1.21		3.36
TOTAL PREPAID:					

Original paid freight bill must be surrendered for overcharges to be refunded and must accompany claims for overcharge, loss or damage.

RECEIVED PAYMENT 19 TOTAL

FREIGHT AGENT

D. C. Burns

The Hall Hardware Co. will be required to pay this freight bill before receiving the merchandise from the railroad agent. The check issued for this bill is recorded as a debit to an account with the title Freight In.

The cost of hauling merchandise from the freight station to the store is referred to as *drayage* and is debited to the Freight In account. If desired, the title of this account may be *Freight and Drayage In.*

Purchases Returns and Allowances. The buyer expects to receive the merchandise ordered and to pay for it at the agreed price. If a part or all of the merchandise delivered as a result of a purchase order is unsatisfactory and for this reason is returned, it is referred to as a *purchase return.* If the merchandise received is not satisfactory or if the price is not that agreed upon, the seller may be required to adjust the price to the satisfaction of the buyer; an adjustment of this character is referred to by the buyer as a *purchase allowance. A credit memorandum* is the business form which contains written information regarding a purchase return or a purchase allowance.

The Credit Memorandum in the illustration below is the result of correspondence regarding an allowance on one item of merchandise in the purchase invoice on page 262.

CREDIT MEMORANDUM

LANG BROS. HARDWARE CO.
HARDWARE AND PAINT
Exclusive Agents "Mason Paint"

Crown Point, April 23 19
Hall Hardware Company,
18 Center St.,
Lansing

YOUR ACCOUNT HAS BEEN CREDITED AS FOLLOWS:

5 Doz. #18D 24" Panel Saws	.75	3.75

This credit memorandum was issued in duplicate by Lang Bros. Hardware Co. The original was mailed to the Hall Hardware Co. and the duplicate retained by Lang Bros. Hardware Co. When this credit memorandum is received by the Hall Hardware Co. it is evidence of a transaction in which the purchase cost is reduced $3.75 and the liabilities reduced the same amount.

The entry to record this transaction in the general journal of the Hall Hardware Co. is in the illustration at the right. The Lang Bros. Hardware Co. account is debited to record the decrease in liabilities and the Purchases Returns and Allowances account credited to record the decrease in the purchase cost.

	April 25, 19		
	Lang Bros. Hardware Co.	3 75	
	Purchases Ret. and Allow.		3 75
	Error in invoice No. 38142.		

Accounts Required for Recording Purchases. The plan of recording all transactions affecting purchases in one Purchases account, as illustrated in previous discussions, is satisfactory where the nature of the purchases is such that it is not necessary to know the total freight cost and total returns and allowances separate from the total purchases. When it is desired to show

invoice cost, transportation cost, and returns and allowances separately, three accounts will be required. With this plan, the invoice cost is recorded in the Purchases account, the transportation cost in the Freight In account, and the returns and allowances in the Purchases Returns and Allowances account. The value of the merchandise on hand at the close of each fiscal period is recorded in an account with Merchandise Inventory.

Market Price. When the market price at the close of the fiscal period is much less than the price paid for the merchandise purchased during the period, the market price may be used when ascertaining the inventory value of the merchandise in stock. This applies only when the market or replacement price is less than the cost price; when the market price is more, the cost price is always used. For income tax purposes, the Treasury Department has ruled that the taxpayer may use either cost or market price whichever is lower but he must follow the same practice at the close of each fiscal period.

Exercise 99, Purchases of Merchandise

(ORAL OR WRITTEN)

1. "January 5. Gave the C. & O. Railway check for $13.75 in payment for freight on merchandise purchased." (a) In what journal is this transaction recorded? (b) What account is debited? (c) Credited? (d) What effect does this transaction have on the cost of merchandise purchased?

2. "June 9. Received check from D. & A. Railway for $2.50, error in freight bill for merchandise purchased." (a) In what journal will this transaction be recorded? (b) What account is debited? (c) Credited? (d) What effect does this transaction have on the cost of merchandise purchased?

3. "Received invoice from Bay Bros. for merchandise purchased, $150.00." (a) In what journal will this transaction be recorded? (b) What accounts are debited and credited? (c) What effect does this transaction have on the cost of merchandise purchased and the liabilities?

4. "Express on merchandise purchased" appears as the explanation of a transaction on the payments side of the cash book? (a) What account is debited? (b) Credited? (c) What effect does this transaction have on the cost of merchandise purchased?

5. "November 16. Received a credit memorandum from W. O. Upton for $12.50, cost value of merchandise returned to him." (a) In what journal will this transaction be recorded? (b) What account is debited? (c) Credited? (d) What effect does this transaction have on the cost of merchandise purchased? What effect does this transaction have (e) on the liabilities if the invoice has not been paid? (f) on the assets if the invoice has been paid and Upton's account is in balance?

6. "May 31. Gave the Dexter Drayage Company check for $42.50, drayage on merchandise purchased during the month of May." (a) In what journal is this transaction recorded? (b) What account is debited? (c) Credited? (d) What effect does this transaction have on the cost of merchandise purchased and the assets?

7. The account in the illustration at the left appears on the ledger of L. B. Hanson at the close of the fiscal period. State the journal entry required to record the first credit entry using your own name. (b) State the journal entry required to record the second entry using the name of your instructor.

PURCHASES RETURNS AND ALLOWANCES

19 May	10		J	18	27	50	
	16		J	20	10	—	

SALES OF MERCHANDISE

Sales of Merchandise. The purchase order issued by the buyer becomes an *order* when received by the seller. The purchase invoice received by the buyer is a *sales invoice* to the seller. The original copy of the credit memorandum issued by the seller and received by the buyer is to the buyer a purchases return or allowance and to the seller, a *sales returns* or *sales allowance*. The original copy of the bill of lading received by the buyer is his authority to secure the merchandise from the railroad and the memorandum copy retained by the seller is a receipt from the railroad for the merchandise.

When an order is received by a wholesale merchant, the desired merchandise is shipped and the order acknowledged by a sales invoice. At least two copies of the sales invoice are prepared; the original is given to the customer as acknowledgment of his order and the copy retained for the sales journal record. Each sale is numbered consecutively, the original sales invoice and the duplicate having the same number. The duplicate is usually punched to fit a binder which becomes a sales journal when the duplicate sales invoices are filed numerically in it.

Recording a Sale. A sale of merchandise as indicated by the carbon copy of the sales invoice is to the seller a transaction in which the asset accounts receivable and the income sales each increase the same amount. The entry in the sales journal of Lang Bros. Hardware Co. is the carbon copy of sales invoice No. 754 illustrated on page 263.

Sales Returns and Allowances. An allowance made to a charge customer because of returned or unsatisfactory goods as evidenced by the carbon copy of the credit memorandum is to the seller a transaction in which the income sales and the asset accounts receivable each decrease the amount of the allowance. The entry in the general journal of Lang Bros. to record the credit allowed the Hall Hardware Co. as evidenced by the copy of the original credit memorandum illustrated on page 265 is in the illustration at the left. The debit records the decrease in sales and the credit, the decrease in assets.

April 23, 19			
Sales Returns and Allow.....		3 75	
Hall Hardware Co.....			3 75
Credit memo. April 23.			

Freight Out. It is customary for the buyer to pay the freight on the merchandise which he purchases. When this custom is followed, the only expense to the seller in connection with the delivery of merchandise to out-of-town customers is the drayage to the freight station at which he delivers the merchandise. Should the seller agree to pay both the drayage and freight, thus delivering the merchandise to the freight station of the buyer, the terms of the sale are said to be *f. o. b.* (free on board) *point of delivery.* This means that the buyer will receive the merchandise at his freight station with the freight paid, hence the cost of the merchandise to him will be the invoice cost plus the drayage from the freight station to his place of business.

When the terms are "f. o. b. point of delivery", the seller may (a) prepay the freight or (b) allow credit for the amount of the freight which the charge customer paid when the merchandise was delivered to him.

When the transportation charges are prepaid by the seller because the terms are f. o. b. point of delivery, the transaction results in a decrease in the asset cash and a decrease in the income from sales usually referred to as *freight out.* When the charge customer pays the freight and deducts it from his indebtedness, the transaction results in a decrease in the asset accounts receivable and a decrease in the income sales. In each case the Freight Out account is debited; when the seller pays the freight, he credits Cash and when the charge customer pays the freight and deducts it, the seller credits the charge customer.

April 1. Joy Bros. received a check for $127.50 from W. C. Hicks, a charge customer, for a sale, $129.35, less freight, $1.85, because the terms were f. o. b. point of delivery.

This transaction results in an increase in the asset cash, a decrease in the asset accounts receivable, and a decrease in the income from sales. The entry to record the check in the cash book is:

CASH — Receipts

19					
April	1	W. C. Hicks	In full of account	127	50

The entry to record the allowance because of the terms is in the illustration at the right. The Freight Out account is debited to record the increase in prepaid freight on merchandise sold. The credit to the account with W. C. Hicks records the decrease in the asset accounts receivable because of this freight allowance. When the cash book and general journal entries are posted, the account with W. C. Hicks will be in balance, which is in accordance with the terms of the sale.

April 1, 19

Freight Out		1 85	
W. C. Hicks			1 85
Allowance because terms were f.o.b., point of delivery			

When the seller prepays the freight on f. o. b. point of delivery shipments, the check is recorded in the cash book as a debit to the Freight Out account.

Prepaid Transportation Charges. When the terms of sale are f. o. b., point of shipment, the customer is to pay the transportation charges. When the merchandise is shipped by parcel post or when the freight or express charges are prepaid by request of the customer, the transportation cost is charged to the customer. A sale to a customer with transportation charges prepaid is a transaction which results in an increase in the asset accounts receivable for the amount of the sale and prepaid transportation charges, a decrease in the asset cash for the amount of the cash paid, and an increase in the sales for the amount of the sale. A special column may be provided in the sales journal for the transportation charges when transactions of this nature occur frequently. If a special column is not provided, the entry to record the prepaid transportation is made in the general journal.

April 7. Joy Bros. sold William Hope, Allentown, merchandise, sale No. 68, $47.50; prepaid express, $1.25, and charged to Hope.

This transaction results in an increase in the asset accounts receivable $48.75, an increase in sales $47.50, and a decrease in the asset cash $1.25. The entry to record the sale in the sales journal is:

April	7	William Hope	Allentown	On account	68	47	50

The entry to record the check paid the express company is:

				CASH	
					Payments
19 April	7	Freight Out	On sale No. 68	1	25

The entry to record the charge to the customer because of the prepaid express is in the illustration at the right. The debit to the account with William Hope records the increase in the asset accounts receivable and the credit to the Freight Out account records the decrease in the freight out.

April 7, 19

William Hope	1	25	
Freight Out			1 25
Prepaid express on sale No. 68.			

The purpose of the Freight Out account is to show the transportation charges which were paid because the terms are f. o. b. point of delivery, hence this account is both debited and credited for transportation charges when the terms are f. o. b. point of shipment. The debit to the Freight Out account is through the entry in the cash book and the credit through an entry in the general journal.

Accounts Required for Recording Sales. All transactions affecting sales may be recorded in one account in which case the balance of the Sales account shows the net returns from sales. When it is desired to know the gross sales separate from the returns and allowances and deductions from sales because of freight out, three accounts will be required. The usual titles of these accounts are Sales, Sales Returns and Allowances, and Freight Out.

Trading Accounts. A mercantile business is often referred to as a trading business and the accounts needed to record the purchase cost and selling price of merchandise as *trading* accounts. The trading accounts discussed in this chapter are Merchandise Inventory, Purchases, Freight and Drayage In, Purchases Returns and Allowances, Sales, Freight Out, and Sales Returns and Allowances.

When the balance of each of these trading accounts is summarized at the close of the fiscal period into one account, the title of the account is *Trading*. The usual custom is to close the balance of each trading account into the Profit and Loss Summary account, rule the account, carry the balance, which is the *gross profit on sales* or *gross trading profit*, down below the ruling, then summarize the other account balances which show increases and decreases in proprietorship in the usual manner. When this plan is followed, the title of the summary account may be Trading, Profit and Loss Summary.

Trading Statement. When the information regarding purchases and sales of merchandise is recorded in trading accounts as discussed in the preceding paragraphs, it is possible to prepare a detailed statement showing the same information. This detailed statement is referred to as a *Trading Statement*. It may be a separate report or a part of the Profit and Loss Statement.

Illustrations. The method of preparing the Trading Statement and summarizing the trading accounts in a Trading account is further explained by illustrations. The account balances in the illustration at the right appear on the ledger of the Hall Hardware Co. at the close of the fiscal period, April 30.

The method of recording each transaction which affected purchases or sales has been illustrated in the preceding paragraphs. The balance of the Merchandise Inventory account shows the merchandise in stock, April 1. The balance of the Freight Out account shows the deduction from sales because of payment of freight charges on sales delivered to out-of-town customers. Merchandise inventory April 30, $2,354.05.

HALL HARDWARE CO.
TRIAL BALANCE, April 30, 19

Cash	3258 90	
Accounts Receivable	2215 40	
Merchandise Inventory	6521 50	
Supplies	132 55	
Prepaid Insurance	121 —	
Equipment	1250 —	
Dep. Reserve		175 —
Accounts Payable		1485 30
L. J. Hall, Capital		3500 —
J. B. Hall, Capital		3500 —
Sales		8819 73
Sales Ret. and Allow.	71 40	
Freight Out	27 50	
Purchases	2275 16	
Purchases Ret. and Allow.		31 35
Freight and Drayage In	334 07	
Rent	250 —	
Sales Clerks Salaries	350 —	
Partners Salaries	500 —	
Office Salaries	175 —	
Miscellaneous Expense	37 25	
Interest Income		13 50
Purchases Discount		81 35
Interest Expense	69 75	
Sales Discount	16 75	
	17606 23	17606 23

The Trading Statement in the illustration below was prepared from the trading accounts on the Trial Balance, page 270, and the April 30 merchandise inventory. If all transactions affecting purchases had been recorded in the Purchases account, it would have been necessary to analyze this account in order to ascertain the invoice cost, freight cost, and purchases returns and allowances. If all transactions affecting sales had been recorded in the Sales account, it would have been necessary to analyze this account in order to ascertain the total amount of the sales invoices, the sales returns and allowances and the freight cost on merchandise delivered to out-of-town customers.

HALL HARDWARE CO.
TRADING STATEMENT, April 30, 19

Income from Sales:				
Gross Sales		8819 73		
Less Sales Ret. and Allow.	71.40			
Less Freight Out	27.50	98 90		
Net Sales			8720	83
Cost of Goods Sold:				
Gross Purchases	2275.16			
Add Freight and Dray. In	334.07	2609 23		
Less Purchases Returns and Allow.		31 35		
Net Cost of Goods Purchased		2577 88		
Add Merchandise Inv. March 31		6521 50		
Net Cost of Goods Avail. for Sale		9099 38		
Less Merchandise Inv., April 30		2354 05		
Net Cost of Goods Sold			6745	33
Gross Profit on Sales			1975	50

Summarizing Trading Accounts. The entries in the illustration at the left show the method of summarizing through entries in the general journal the balances of the trading accounts as shown on the Trading Statement. The purpose of these entries is to summarize in one account in the ledger the same facts as shown on the Trading Statement. The information used as a basis for this journal entry is obtained from the Profit and Loss Statement columns of the Working Sheet or the Trading Statement.

April 30, 19

Merchandise Inventory	2354 05			
Trading, P. and L. Summary			2354	05
To record the merchandise inventory April 30.				
30				
Sales	8819 73			
Purchases Returns and Allowances	31 35			
Trading, P. and L. Summary			8851	08
To transfer accounts with credit balances to the Trading account.				
30				
Trading, Profit and Loss Summary	9229 63			
Merchandise Inventory			6521	50
Sales Returns and Allowances			71	40
Freight Out			27	50
Purchases			2275	16
Freight and Drayage In			334	07
To transfer accounts with debit balances to the Trading account.				

The first entry is to record the merchandise inventory at the close of the fiscal period, April 30. The second entry is to close the trading accounts with a credit balance into the Trading, Profit and Loss Summary account. The third entry is to close the trading accounts with a debit balance into the summary account.

The illustration below shows the trading division of the Trading, Profit and Loss Summary account after the trading accounts in the Trial Balance on page 270 have been summarized through the journal entries on page 271. It is ruled and the profit on sales carried down. The balance of each expense account will be transferred to the debit side of this summary account and the balance of any other income accounts transferred to the credit side. The balance of the summary account will then show the net profit. The purpose of the illustration here is to show only the account balances which relate to the profit on sales.

TRADING, PROFIT AND LOSS SUMMARY

19						19				
April	30	Mdse. Inv.	J12	6521 50		April	30	Mdse. Inv.	J12	2354 05
	30	Purchases	J12	2275 16			30	Sales	J12	8819 73
	30	Frt. and Dray. In	J12	334 07			30	Pur. R. and A.	J12	31 35
	30	Freight Out	J12	27 50						
	30	Sales R. and A.	J12	71 40						
	30	Profit on Sales	√	1975 50						
				11205 13						11205 13
						April	30	Profit on Sales	√	1975 50

The word "Summary" may be omitted from the title of this account if desired, in which case the title would be Trading, Profit and Loss. The word "Summary" is used to emphasize the fact that this account contains a summary of the temporary proprietorship accounts.

SUMMARY

The Purchases Account is a record of the merchandise purchased for sale. This account is *debited* for the purchase cost as shown by the purchase invoice and *credited* for errors which reduce the debit balance. The *debit* balance at the close of the fiscal period shows the invoice cost of merchandise purchased during the period; it is closed into the Trading, Profit and Loss Summary account.

The Freight In Account is a record of the transportation cost on merchandise purchased. This account is *debited* for freight, drayage, express and postage cost, and *credited* for adjustments which reduce transportation cost. The *debit* balance at the close of the fiscal period shows the transportation cost for the period; it is closed into the Trading, Profit and Loss Summary account.

The Purchases Returns and Allowances Account is a record of the credits allowed by creditors because of an allowance or returned merchandise. This account is *credited* for the amount of each allowance or return as indicated by a credit memorandum received. The *credit* balance at the close of the fiscal period shows the total allowances made by creditors during the period; it is closed into the Trading, Profit and Loss Summary account.

If desired, separate accounts may be maintained with Purchases Returns and Purchases Allowances; the former would contain a record of the returns, and the latter, allowances.

The Merchandise Inventory Account shows the asset value of the merchandise in stock at the beginning of a fiscal period. This account is

debited at the close of the fiscal period for the value of the merchandise in stock at that time and *credited* at the close of the fiscal period for the value of the merchandise in stock at the beginning of the fiscal period. The *debit* balance of this account at the close of the fiscal period is closed into the Trading, Profit and Loss Summary account.

The Sales Account is a record of the income from sales. This account is *credited* for cash and charge sales of merchandise and *debited* for errors which reduce the credit balance. The *credit* balance at the close of the fiscal period shows the sales for the period; it is closed into the Trading, Profit and Loss Summary account.

The Sales Returns and Allowances Account is a record of the credits allowed to customers because of allowances or returned merchandise. This account is *debited* for the amount of each allowance or return as indicated by the copy of a credit memorandum rendered. The *debit* balance at the close of the fiscal period shows the total allowances made to customers during the period; it is closed into the Trading, Profit and Loss Summary account.

If desired, separate accounts may be maintained with Sales Returns and Sales Allowances; the former would contain a record of the returns and the latter, allowances.

The Freight Out Account contains a record of all prepaid transportation charges. This account is *debited* for the transportation cost at the time it is paid and *credited* for that part of the transportation which is debited to charge customers. The *debit* balance shows the transportation cost because of terms, f. o. b. point of delivery; it is closed into the Trading, Profit and Loss Summary account.

The Trading Account is a summary of the trading accounts on the ledger at the close of the fiscal period. It is usually made a section of the Profit and Loss Summary account in which case the title is Trading, Profit and Loss Summary. This account is *debited* with the balances of the Purchases, Freight In, Merchandise Inventory (beginning), Sales Returns and Allowances and Freight Out accounts, and *credited* with the balances of the Merchandise Inventory (ending), Purchases Returns and Allowances and Sales accounts. The *credit* balance, if summarized in a Trading account, is transferred to the Profit and Loss Summary account; if summarized in a combined account, the credit balance is entered on the debit side, the account ruled and the balance carried down on the credit side below the ruling.

Exercise 100, Purchases and Sales of Merchandise

(ORAL OR WRITTEN)

1. "November 7. Dodge Bros. issued a credit memorandum to O. R. Wing, a charge customer, for $12.50, the value of merchandise returned by him." What entry will be made by (a) the bookkeeper for Dodge Bros? (b) the bookkeeper for O. R. Wing?

2. "May 15. Singer Bros. gave the Lawton Transfer Company a check for $275.00 in payment for freight and drayage bills for the month as follows:

freight on incoming merchandise, $175.73; prepaid freight on outgoing merchandise, $99.27. How will this transaction be recorded in the cash book?

3. "Express on sales invoice No. 929" appears as the explanation of an entry on the payments side of the cash book. (a) What account is debited if the customer is to pay this express? (b) What account is debited if the terms are "f. o. b. point of delivery"? (c) What account is credited?

4. "August 17. Allyn & Smith issued a credit memorandum to O. C. Daily, a charge customer, for $9.00 because of an error in the extension in an invoice." What entry will be made by (a) the bookkeeper for Allyn & Smith? (b) the bookkeeper for O. C. Daily?

5. Issued check No. 92 to the B. & O. Railway for freight on merchandise purchased. How will this transaction be recorded?

6. Received from S. E. Railway check for $3.52 because of an error in a freight bill debited to the Freight In account. (a) In what journal will this transaction be recorded? What account is (b) debited? (c) credited?

Exercise 101, Working Sheet and Reports

The Trial Balance on page 270 shows the account balances on the ledger of the Hall Hardware Co. at the close of the monthly fiscal period, April 30. The merchandise inventory is $2,354.05; supplies inventory, $88.75; prepaid insurance, $92.50; monthly depreciation on equipment 1%.

Instructions. (1) From the account balances on the Trial Balance and the information given above prepare a Working Sheet; present proprietorship, $7,586.80; net profit, $586.80 divided equally between the partners.

(2) From the Balance Sheet columns of the Working Sheet prepare a Balance Sheet.

(3) From the information in the Profit and Loss columns of the Working Sheet prepare a Profit and Loss Statement.

(4) From the information in the Adjustments and Profit and Loss Statement columns prepare the adjusting and closing entries.

Exercise 102, Trading Accounts

The Trading account below contains a summary of the trading accounts in the ledger of G. L. Duncan at the close of the quarterly fiscal period.

TRADING

19							19					
Sept.	30	Mdse. Inv. 7/1	J16	2236	49		Sept.	30	Mdse. Inv. 9/30	J16	2418	13
	30	Purchases	J16	7866	54			30	Sales	J16	11489	65
	30	Frt. and Drayage In	J16	1285	17			30	Pur. Ret. and Allow.	J16	324	65
	30	Sales Returns	J16	22	50							
	30	Sales Allowances	J16	18	75							

From the facts shown in this account prepare (a) a trading statement showing the gross profit on sales, and (b) the journal entries from which the facts in this Trading account were posted.

CHAPTER XXIII

COMMERCIAL DRAFTS AND TRADE ACCEPTANCES

The term *draft* is used to describe two different business forms, (1) *bank draft,* and (2) *commercial draft.* A bank draft, as previously explained, is a check drawn by one bank on funds deposited in another bank. The discussion in this chapter relates to (a) commercial drafts and their use for collecting past due accounts, (b) trade acceptances, and (c) C. O. D. shipments.

Commercial Drafts. When the creditor and debtor are located in the same city, the creditor can present his claim to the debtor in person. When the debtor resides in a different city, the creditor can not very well present his claim in person, hence usually collects through correspondence. When the debtor does not send remittance as a result of correspondence, it is necessary for the creditor to use some other means of making collection. The usual means is through a *commercial draft,* also known as a *draft.*

A written order signed by the creditor requesting his debtor to pay the amount of the indebtedness to a third party, usually a bank, is referred to as a *draft.* The draft is sent to the bank for collection and presented by the bank to the debtor. It is customary for the creditor to notify his debtor by letter that the draft has been drawn.

When the creditor wishes the indebtedness paid upon presentation of the draft, it is drawn payable *at sight* and known as a *sight draft.* When the creditor wishes to allow additional time for payment of the draft after it is presented, the draft is made payable a designated number of days after date or after sight; this form is referred to as a *time draft.*

Illustration. The use of a sight draft as a means of collecting past due accounts is further explained by illustrations.

A. N. Bradford & Co., wholesale grocers in Cleveland, sell groceries to R. L. Judson, a retail grocer in Morristown. July 1, the account with R. L. Judson on the ledger of A. N. Bradford & Co. appears as in the illustration at the right. The "State National Bank" is the name of the bank where R. L. Judson does business. The balance past due July 1 was $269.75.

State National Bank — R. L. JUDSON — Morristown

19							19				
Jan.	12	60 days	S	6	187	65	Mar.	13	C 24	187	65
Mar.	18	60 days	S	64	469	75	May	17	C 56	100	—
							June	1	C 64	100	—

July 1, the one in charge of collections for A. N. Bradford & Co. wrote the letter in the illustration at the left. The statement referred to in the letter was the same as that explained in previous chapters. No reply to the letter had been received July 10 and the letter illustrated below was written. The purpose of this second letter is to advise R. L. Judson that further efforts will not be made to collect through correspondence. Unless a check is received for the $269.75 before July 20, R. L. Judson will be requested to pay the amount at a bank in his city. No reply to this letter would indicate that R. L. Judson is willing to pay a draft when presented.

OFFICE OF
A. N. BRADFORD & CO.
Wholesale Grocers and Provisioners
CLEVELAND

July 1, 19 .

Mr. R. L. Judson
Morristown

Dear Sir:

The inclosed statement shows a past due balance of $269.75. We hope to receive a remittance by return mail.

Yours very truly,

A. N. BRADFORD & CO.

The sight draft and stub in the illustration below indicate that R. L. Judson did not answer the letter of July 10 and that A. N. Bradford & Co. are making collection in the manner suggested in the letter. The stub contains the same information as the draft, hence provides a record of it. Both the draft and stub were prepared on a printed form used for drawing

OFFICE OF
A. N. BRADFORD & CO.
Wholesale Grocers and Provisioners
CLEVELAND

July 10, 19 .

Mr. R. L. Judson
Morristown

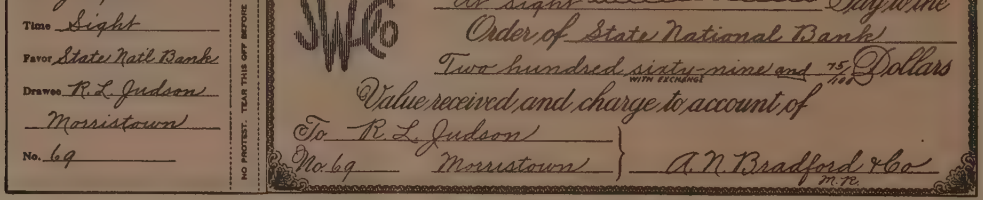
Dear Sir:

No reply to our letter of July 1 regarding the past due balance of $269.75 indicates that the letter has not been received or in the rush of business you neglected answering it. Since we are anxious to collect all past due accounts, with your permission will draw at sight through the State National Bank, your city, July 20 for the balance past due.

If you prefer that we do not draw this draft, please send remittance by return mail. Unless we hear from you, the draft will be drawn as stated.

Yours very truly,

A. N. BRADFORD & CO.



drafts. A. N. Bradford & Co. drew the draft and are referred to as the *drawer*. The draft is drawn on R. L. Judson who is the *drawee*. The amount of the indebtedness is to be paid to the State National Bank in Morristown, the *payee*.

If desired, A. N. Bradford & Co. could have made the draft payable to "Ourselves" in which case it would have been indorsed to the State National Bank for collection. The indorsement would have been "Pay to the order of State National Bank, Morristown, For collection, A. N. Bradford & Co."

The best results are obtained with sight drafts when made payable to the bank at which the customer does business. The name of the bank can be obtained from checks received from a customer; if this information is noted on the ledger account it will be available when needed.

The letter illustrated at the left indicates that A. N. Bradford & Co. desire R. L. Judson to know that the draft has been drawn thus permitting him to be prepared to pay it when presented by the State National Bank. It is not necessary for the creditor to write the debtor that the draft has been drawn, but it is customary to do so.

OFFICE OF
A. N. BRADFORD & CO.
Wholesale Grocers and Provisioners
CLEVELAND

July 20, 19 .

Mr. R. L. Judson
Morristown

Dear Sir:

Complying with the suggestion in our letter of July 10, we have this day drawn a sight draft on you through the State National Bank, your city, for $269.75. No reply to our letter of July 10 indicates that you plan to honor the draft when presented.

Yours very truly,

A. N. BRADFORD & CO.

The draft was removed from the stub and mailed to the collecting bank together with the letter in the illustration at the right. When the bank receives this letter and the draft, it will notify R. L. Judson either by mail or by messenger that it has the draft for collection. The usual custom is for the bank to send the draft by a messenger authorized to collect it.

OFFICE OF
A. N. BRADFORD & CO.
Wholesale Grocers and Provisioners
CLEVELAND

July 20, 19 .

State National Bank
Morristown

Gentlemen:

Inclosed find sight draft for $269.75 drawn on R. L. Judson, your city. Please present this draft for collection and remit proceeds.

Yours very truly,

A. N. BRADFORD & CO.

Drawing a sight draft is not a transaction because at the time the draft is drawn it is not known that the customer will honor it, hence no entry is required in a journal. A record of the draft is maintained through the stub. If desired, a notation may be

made in the explanation column of the account with the customer showing the date and fact that a sight draft has been drawn.

July 27. Received from the State National Bank, Morristown, $269.15, proceeds of sight draft No. 69, $269.75.

The collection notice is shown in the illustration at the left. The bank draft which accompanied this notice is not illustrated; it is similar in form to the bank draft illustrated in a previous chapter. The information in the notice is checked with the draft stub and "Honored July 24" written across the stub. Had the drawee dishonored the sight draft, the original sight draft would have been returned with a notice showing reason for the return. The information written on the draft stub would have been "Dishonored July 24."

STATE NATIONAL BANK

Morristown, July 24, 1 —

PLEASE NOTE THAT COLLECTIONS HAVE BEEN MADE AS FOLLOWS:

DATE	NAME AND ADDRESS	AMOUNT	CREDIT
July 20	R. L. Judson, Morristown	269.75	269.15

To A. N. Bradford & Co., Cleveland.

ALL ITEMS CREDITED SUBJECT TO FINAL PAYMENT

This transaction results in an increase in the asset cash $269.15, an increase in collection expense 60c, and a decrease in the accounts receivable $269.75. The general journal entry at the right and the cash book entry below show the method of recording this transaction. The No. 69 in the explanation of the general journal entry is the number on the stub of the sight draft; sight drafts are usually not recorded in the note register.

July 27, 19

√	Cash	269 15		
	Collection Expense	60		
	R. L. Judson			269 75
	Collected draft No. 69.			

CASH — Receipts

19						
July	27	√	R. L. Judson	Proceeds of Draft No. 69	269 15	

The check marks in the folio columns are to avoid double posting. When the entry in the general journal is posted, "Draft" is written in the explanation column of the account with R. L. Judson; this information shows it was necessary to collect by draft.

When there are a number of transactions similar to the one illustrated, an additional column may be provided on the receipt side of the cash book for collection expense in the same manner as the sales discount column as explained in a previous chapter.

Exercise 103, Sight Drafts

(ORAL OR WRITTEN)

1. The account in the illustration at the right appears on the ledger of Miller Bros., Denver. (a) Is this a customer or a creditor? (b) When was the indebtedness due? (c) If collected by a sight draft drawn through the bank mentioned, state the names of the drawer, drawee, and payee.

Union Bank			D. L. Baird			Lafayette
19 Mar.	5	60 days S	90	122	50	

2. The date of a sight draft is July 10; face, $213.50; drawer, Hall Bros.; drawee, C. H. Wall & Co. On whose ledger will this account appear as (a) an accounts receivable? (b) an accounts payable? (c) If the draft is payable to "Ourselves" and collected by the City Bank, Dayton, how will it be indorsed?

3. June 16. D. A. Watts received a bank draft for $113.50, collection of sight draft No. 32, $114.10. If this draft was drawn on G. L. Rayl, state the entry to record the transaction.

4. "Your draft on C. H. Dale was dishonored when presented May 18 and is returned herewith." This is quoted from a letter received by Ball Bros. from the City Bank. (a) What entry will be made on the draft stub for this transaction? (b) What information should be written in the explanation column of the account with the charge customer.

5. "You may draw at sight through the Citizens Bank at which we do business for $86.50, balance past due, as requested in your letter of October 11." This quotation is from a letter written to you by G. W. Brewer, Clinton, a charge customer. State the information that will be contained in this draft on a form similar to the illustration on page 276.

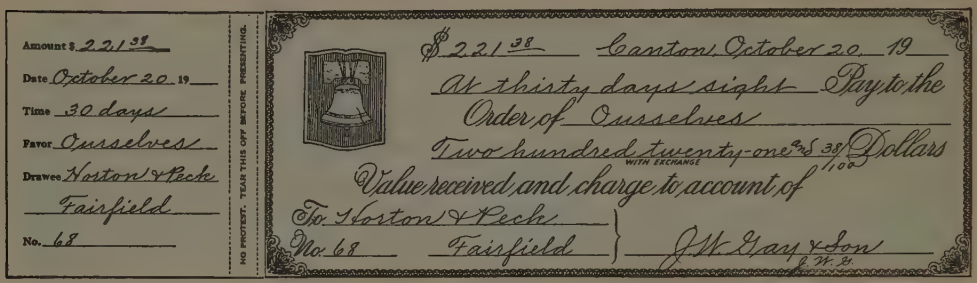
TIME DRAFTS

Time Draft. A draft made payable a designated number of days after presentation or after date is referred to as a *time draft*. A time draft dated May 9, payable "At thirty days sight," presented for acceptance May 11, if accepted, will mature June 10. A time draft dated October 5, payable "Thirty days after date" and presented for acceptance October 9 will, if accepted, mature November 4.

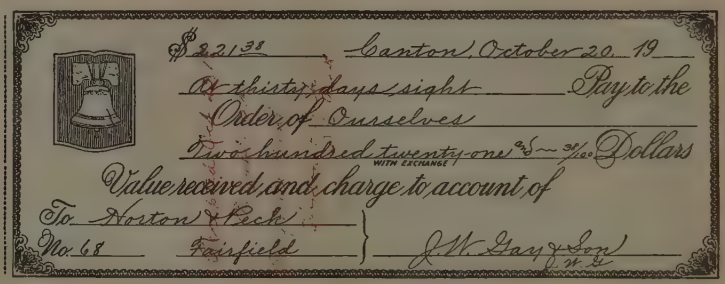
Time drafts are used when the customer will not honor a sight draft. When accepted, a time draft has the same effect as a note receivable received from the customer. An accepted time draft is the same as a non-interest-bearing note; time drafts do not bear interest. An accepted time draft is usually referred to as an *acceptance*.

> "We can not honor a sight draft, but are willing to accept a 30-day time draft." This quotation is from a letter received by J. W. Gay & Son at Canton from Horton & Peck, Fairfield, October 19.

The draft in the illustration below indicates the J. W. Gay & Son have drawn the draft as suggested by Horton & Peck. The draft is made payable to "Ourselves" which means that Horton & Peck will have to indorse the draft to the collecting bank. If this is the Citizens Bank, the indorsement will be "Pay to the order of Citizens Bank, For collection, J. W. Gay & Son."



The draft illustrated below shows that the Citizens Bank through its agent in Fairfield has presented the draft for acceptance and Horton & Peck have honored it as stated in their letter. "Honored October 23" is written across the stub of the draft and the draft recorded in the journal and notes receivable register.



Drawing a time draft is not a transaction. Receiving an accepted time draft is a transaction in which the asset notes receivable increases the amount of the draft and the asset accounts receivable decreases a corresponding amount.

The entry in the illustration at the right shows the method of recording the transaction resulting from receiving the acceptance from the bank. The debit to the Notes Receivable account records the increase in the asset notes receivable and the credit to the account with Horton & Peck, the decrease in the asset accounts receivable.

October 25, 19

Notes Receivable			221	38	
Horton & Peck				221	38
60-day draft accepted October 23.					

Trade Acceptance. A time draft drawn by the seller at the time of the sale for acceptance by the buyer when he receives the merchandise is referred to as a *trade acceptance.* The purpose of the trade acceptance is to provide the seller with written evidence of the sale in negotiable form at the time of the sale. The distinction between a time draft and trade acceptance is that the time draft provides written evidence of a past due account while the trade acceptance provides written evidence of a sale at the time the sale was made. Accepted time drafts and accepted trade acceptances are the same in that neither is interest-bearing.

The draft is usually made payable a designated number of days after sight. The trade acceptance is made payable a designated number of days after the date of the sale as shown by the invoice.

May 10. Rice Brothers, Dallas sold R. L. Judd, Gainesville, merchandise per sales invoice No. 47, $527.50; terms, trade acceptance 60 days.

The trade acceptance below was drawn and mailed to R. L. Judd with the sales invoice. The stub contains the same information as the trade acceptance, hence provides a record of it.

$527.50
Due July 9, 19
Date May 10
Favor of Rice Bros.
Drawn on R. L. Judd
No. 36

TRADE ACCEPTANCE

No. 36 Dallas, May 10, 19
To R. L. Judd Gainesville
On July 9 (DATE OF MATURITY) Pay to the order of Ourselves
Five hundred twenty-seven 50/100 Dollars, ($527.50)

The obligation of the acceptor hereof arises out of the purchase of goods from the drawer. The drawee may accept this bill payable at any bank, banker or trust company in the United States which he may designate.

Accepted at on 19
Payable at Bank
By (SIGNATURE OF ACCEPTOR)

By Rice Bros
By J. M. Rice

The accepted trade acceptance illustrated below shows that R. L. Judd has complied with the terms of the sales invoice through accepting the trade acceptance. "Honored May 14" is written across the stub and the acceptance recorded in the general journal and notes receivable register.

TRADE ACCEPTANCE

No. 36 Dallas, May 10, 191
To R. L. Judd Gainesville
On July 9 (DATE OF MATURITY) Pay to the order of Ourselves
Five hundred twenty-seven 50/100 Dollars, ($527.50)

The obligation of the acceptor hereof arises out of the purchase of goods from the drawer. The drawee may accept this bill payable at any bank, banker or trust company in the United States which he may designate.

Accepted at Gainesville on May 14 19
Payable at City National Bank
R. L. Judd (SIGNATURE OF ACCEPTOR)
By

By Rice Bros
By J. M. Rice

Drawing a trade acceptance because of the terms of the sale is not a transaction. Receiving an *accepted* trade acceptance is a transaction in which

the asset notes receivable increases the face of the trade acceptance and the asset accounts receivable decreases a corresponding amount.

The entry in the illustration at the left is to record the trade acceptance drawn on R. L. Judd and honored by him when received. The debit to the Notes Receivable account records the increase in the asset notes receivable and the credit to the account with R. L. Judd, the decrease in the asset accounts receivable.

May 15, 19

Notes Receivable		527	50	
R. L. Judd				527 50
60-day trade acceptance.				

If desired, the face value of each trade acceptance may be recorded in an account with the title "Trade Acceptances Receivable." The usual plan is to regard accepted trade acceptances as notes receivable, hence record their value in the Notes Receivable account.

Record of Drafts by the Drawee. To the drawer, a sight draft is a means for collection, hence no entry is made until cash is received for the draft. To the drawee, a sight draft is a request which he may honor or dishonor as he may choose. If he honors the draft, the check issued in payment is recorded in the same manner as if the check had been sent direct to the creditor; if he dishonors the draft, no entry is required.

When the drawee accepts a time draft or a trade acceptance, he has promised in writing to pay a definite amount at a stated time, hence has assumed the same obligation as if he had issued his note to the creditor. To the drawee, the acceptance of a time draft is a transaction in which the liability accounts payable decreases the face of the draft and the liability notes payable increases the same amount. The transaction is recorded in the general journal as a debit to the account with the creditor and a credit to the Notes Payable account.

Exercise 104, Drafts and Trade Acceptances

(ORAL OR WRITTEN)

1. "You may draw at 60 days for the merchandise shipped June 16." This quotation is from a letter received June 20 by the Steadfast Jewelry Co., Ogden, from W. L. Hope, Camden, a charge customer. (a) State the drawer, drawee, and payee if the draft is drawn payable to "Ourselves". (b) Will the drawer draw a time draft or a trade acceptance? (c) Give reason for your answer.

2. R. S. New owes the Davis Trading Company, a local firm, $32.50 which is past due. If Davis Trading Company allows an extension of thirty days' time upon receipt of written evidence of the indebtedness, will Robert S. New execute a note or accept a draft?

3. July 16. B. J. Watts & Son, Portland, sold J. H. Dunn, Marion, sale No. 629, $182.65; terms, trade acceptance 60 days. (a) State the entry to

record this transaction in the sales journal. (b) State the information to be contained in the trade acceptance similar to the one illustrated on page 281 assuming that the acceptance is made payable to "Ourselves."

4. July 20. B. J. Watts & Son received from J. H. Dunn the accepted trade acceptance referred to in the preceding question. (a) State the entry to record this transaction. (b) When will this trade acceptance mature? (c) How may the drawer collect this trade acceptance?

5. "Will honor 30-draft for $150.00, balance past due, when presented as requested." This quotation is from a letter received by you from G. H. Bell, Springfield, a charge customer. (a) Will you draw a time draft or trade acceptance? (b) Why? (c) What information will be contained in the draft if prepared on a form similar to the illustrations in this chapter? In what journal will the draft be recorded (d) when drawn? (e) when returned accepted?

C. O. D. SALES

Collect on Delivery Sales. When merchandise is sold with the understanding that the customer is to pay for it when delivered, the terms are usually referred to as "C. O. D.", that is, collect on delivery. When delivery is to be made through the delivery service maintained by the seller, his agent, usually the truck driver, will collect for the merchandise when it is delivered. When delivery is to be made by express or parcel post, the express agent or postman will collect before delivering the goods and remit by money order. When delivery is to be made by freight, the railroad will hold the goods until the buyer presents the original copy of the order bill of lading.

Method of Making a C. O. D. Freight Shipment. When the terms of a sale are "C. O. D." and the shipment is to be made by freight, the seller follows the same process of shipment as if the terms were not C. O. D. An *order bill of lading* is used instead of a straight bill of lading and the package containing the merchandise is addressed to the seller at the address of the buyer with instructions to the railroad to notify the buyer. The original bill of lading and a sight draft for the amount of the invoice are sent to a bank with instructions to notify the buyer and collect the draft.

When the original order bill of lading and sight draft are received by the collecting bank, it will notify the buyer. When the merchandise is received by the freight agent of the railroad at the freight station of the buyer, the freight agent will notify the buyer that the merchandise is available for delivery. The buyer will call at the bank, pay the draft, secure the bill of lading, present it to the freight agent and upon payment of the freight receive the merchandise. The bank will report the collection of the draft to the seller and send remittance for the amount collected less the charge for collecting.

The form of sight draft used for collecting a C. O. D. sale is the same as a sight draft used for collecting a past due account. The form of order bill of lading contains the same information as the illustration on page 263; space is provided on the back for an indorsement to transfer title to the buyer. The consignee may receive goods without presenting the original of a straight bill of lading, but he must present the original of an order bill of lading before receiving the goods.

Method of Recording C. O. D. Sales. The retail merchant who maintains his own delivery service will not record a C. O. D. sale until his driver collects the money. When the money is received from the driver, the sale is recorded as a cash sale. When delivery is made by freight, express, or mail, the sale is usually recorded as a debit to the account with the customer or to an account with the title *C. O. D. Shipments.* When collection has been made and cash received from the collecting agent, the account which was debited at the time of the sale is credited for the amount of the sale. Collection charges for C. O. D. shipments are recorded in the same manner as collection charges for a note or draft.

When a charge customer does not maintain his credit rating and it is necessary to ship C. O. D., the usual plan is to debit his account for each C. O. D. sale and credit his account when the cash is received. If the sale is made to one who is not a regular customer, the usual plan is to debit an account with C. O. D. Shipments for the amount of the sale and credit this account for the cash when received from the transportation company. If many orders are shipped C. O. D., separate accounts may be kept with freight, express and parcel post shipments. If this is done, the title of the account debited for the sale may be "C. O. D." and the name of the railroad company, the name of the express company, or Post Office.

Method of Recording C. O. D. Purchases. When merchandise is shipped by freight C. O. D., the buyer knows from the terms of the purchase invoice that it will be necessary to pay a sight draft for the amount of the invoice before he can secure the original bill of lading. The usual custom is to record the purchase in the purchases journal when the purchase invoice is received in the same manner as other purchases. When the purchases journal entry is posted, the amount of the purchase invoice will appear on the credit side of the account with the creditor and "C. O. D." will be written in the explanation column.

When the draft is presented by the bank, the purchaser will issue a check in payment and receive the receipted draft and original order bill of lading. The check will be recorded as a debit to the account with the creditor. When the entry on the payments side of the cash book is posted, the account with the creditor will be in balance.

When the merchandise arrives at the freight station, the buyer can secure it upon presentation of the bill of lading and payment of the freight. The

check issued in payment for the freight will be a debit to Freight In the same as freight on other purchases.

If desired, the buyer can hold the purchase invoice for record until the draft is presented for payment, in which case the check will be recorded as a debit to the Purchases account.

Exercise 105, Drafts and C. O. D. Sales

(ORAL OR WRITTEN)

1. "Ship one No. 12 motor by C. & S. freight C. O. D. $150.00, price quoted." This quotation is from a telegram received April 5 by the Watson Electric Company from G. L. Shaw. (a) What information will be recorded in the sales journal? (b) What form of bill of lading will be used? (c) What will be attached to the bill of lading? (d) To which copy of the bill of lading will it be attached? (e) How will G. L. Shaw secure the motor?

2. May 10. Mrs. C. A. Burns called at the Standard Department Store, selected a coat and instructed the clerk to have it delivered to her home C. O. D. for $45.00, the selling price. The coat was delivered May 11 to Mrs. Burns by the truck driver and $45.00 collected from her by him. (a) On what date was this sale recorded? (b) How was it recorded?

3. "Inclosed find check for $15.00 in part payment for one of your No. 10 bookcases advertised to sell for $35.00. Send by American Express C. O. D. for the balance." This quotation is from a letter received by the Stall Furniture Co., Clarksburg, and signed by G. W. Fells, whose name does not appear on the ledger of this firm. What accounts are debited and credited (a) to record the sale? (b) to record the cash received? (c) to record the money order for $20.00 received from the express company.

4. "Ship C. O. D. 1 doz. No. 10 saws at $21.50, price quoted." This order was received from Fred Brater, charge customer whose account is past due. State the entry to record this sale in the sales journal.

5. "Inclosed find P. O. money order for $10.00 as part payment for the shoes on which you quoted a delivered price of $18.50. Ship by parcel post C. O. D. for the balance." State the entry to record this sale in the sales journal and the cash in the cash book.

Exercise 106, Sight and Time Drafts

Assume that you are bookkeeper for a local firm and are required to record the following transactions in the general journal.

1. October 14. Received from James Duncan a sixty-day trade acceptance for $116.85 which he accepted October 13 as per terms of the sale.
2. September 4. Drew a sight draft on J. B. Munson of Clarksdale for $86.27 and sent it to the Farmers National Bank for collection. September 9. Received a check from the Farmers National Bank for $85.97, proceeds of the draft.

3. May 15. Received permission from E. L. Simpson, a charge customer, to draw at 30 days sight for $209.28, balance due on account. Drew the draft and sent it to the Valley Bank for presentation and acceptance. May 20. Received from the Valley Bank the draft accepted May 19.

4. November 12. Gave the Union Manufacturing Company permission to draw at sight for $181.65 balance due. Honored the draft upon presentation, November 18.

5. July 29. Honored a sixty-day trade acceptance for $318.72 drawn by Fowler & Waite per terms of purchase invoice received today and recorded in the purchase journal.

6. December 6. Honored a sight draft drawn by D. H. Ring and Son for $36.78 in full of account $38.00 less credit for merchandise returned.

Exercise 107, Drafts and C. O. D. Shipments

Record each of the following transactions in the required journal or journals.

1. O. R. Moore, a charge customer, dishonored a sight draft. May 6. Received a check from him for $29.42 and returned merchandise, value $3.13.

2. October 28. Received from the Merchants Bank a bank draft for $299.75 in payment of a thirty-day trade acceptance for $300.00 collected by the bank at maturity.

3. March 26. Sold L. X. Singer, merchandise per sales invoice No. 621, $518.40, terms trade acceptance 90 days. The accepted trade acceptance was received April 1.

4. August 4. Honored a thirty-day draft for $113.55 drawn by B. A. Daniels in full of account.

5. June 16. Sold Jones Construction Company 10,000 feet of lumber at $32.50 per thousand, terms C. O. D. shipper by freight. June 18. Received check from the bank for the proceeds of the draft; collection charges, ⅛ of 1%. (a) Record in the appropriate journal the transaction of June 16. (b) Record in the appropriate journals the transaction of June 18.

6. May 9. W. H. Parker received a purchase invoice from Roberts Bros. for merchandise purchased, terms, C. O. D., $113.65. May 11. W. H. Parker gave the bank messenger check for the sight draft drawn because of this purchase. May 16. Gave the railroad company check for $5.27 to pay the freight on the merchandise shipped by Roberts Bros. Record the transactions completed by W. H. Parker.

CHAPTER XXIV

THE DISCOUNT AND TRANSFER OF NOTES RECEIVABLE

The method of recording notes receivable when received at face value and collected at maturity has been discussed and illustrated in preceding chapters. The discussion and illustrations in this chapter relate to the method of recording transactions (a) in which a note is received at more or less than its face value, (b) in which cash is received for a note receivable before maturity and (c) in which a note receivable is transferred before maturity.

Note Receivable. A note or acceptance (accepted time draft or accepted trade acceptance) owned by the business is known as a note receivable. A note or accepted time draft is usually the result of an extension of time granted to a charge customer. A trade acceptance is the result of a sale to a charge customer in which the terms of the sale require the acceptance of a trade acceptance. A note may be made payable to the business or may be transferred to it by indorsement. An acceptance may be made payable to the business or to the bank which is to collect it. A note may be interest-bearing or non-interest-bearing; an acceptance is non-interest-bearing.

Values of a Note Receivable. Each note receivable has three values, (a) face value, (b) present value and (c) maturity value. The face value is the amount stated in the note or acceptance. The maturity value is the amount to be collected at maturity.

Present Value. The asset value at which a note receivable is received at any time prior to maturity is usually referred to as its *present value.* The present value of a non-interest-bearing note receivable will usually be less than the face value. The present value of an interest-bearing note receivable may be the face value or more or less than the face value.

The present value of a note receivable is usually given consideration only when the note is received at a time subsequent to its date or when it is discounted at the bank. The present value of a note receivable is not recorded in the Notes Receivable account. The Notes Receivable account is debited for the face of each note when the note is received and credited for the face of each note when transferred, discounted or collected.

The present value of a note is the maturity value less interest at the agreed rate from the date on which it is desired to ascertain the present value to maturity. If any other method is used to ascertain the asset value of a note at the time it is transferred, it is because of agreement, and it is usually referred to as the agreed value.

Note Received at Less Than Face Value. When a non-interest-bearing note is transferred to the business, this transfer is usually on a date subsequent to the date of the note. The asset value of the note, that is, the value at which it is received is the present value, face of the note less the legal rate of interest

(usually 6%) from the date of the transfer to the maturity of the note. The difference between the face of the note and the credit to the account of the charge customer from whom a note is received is referred to as the *discount*.

May 11. Duncan Bros. received from A. B. Allen note No. 93 for $600.00. Allowed credit for the present value, $592.20, which is the face value less $7.80, 6% interest to maturity.

This transaction results in an increase in the asset notes receivable $600.00, a decrease in the asset accounts receivable $592.20 and an increase in the income $7.80. The entry in the illustration at the right shows the method of recording this transaction in the general journal. The details of this note are recorded in the note register on page 289.

May 11, 19

Notes Receivable		600 —	
Interest Income			7 80
A. B. Allen			592 20
Received note No. 93, face $600.00, at present value, $592.20.			

Note Received at More Than Face Value. When an interest-bearing note is transferred to the business by indorsement, it is customary to allow the customer credit for the face of the note plus the accrued interest to date. A transaction of this nature increases and decreases the assets the same amount.

May 12. Duncan Bros. received from A. L. Cooley, a charge customer, note No. 94, face value, $300.00. Allowed credit for $301.50, agreed value of the note.

This transaction results in an increase in the asset notes receivable $300.00, an increase in the asset accrued interest $1.50, and a decrease in the asset accounts receivable $301.50. The entry to record this transaction is in the illustration at the right. The Notes Receivable account is debited for $300.00 to record the increase in the asset notes receivable, the Accrued Interest on Notes Receivable account is debited for $1.50 to record the increase in the asset accrued interest, and the account with A. L. Cooley is credited for $301.50 to record the decrease in the asset accounts receivable.

May 12, 19

Notes Receivable		300 —	
Accrued Interest on N. R.		1 50	
A. L. Cooley			301 50
Received note No. 94, face $300.00, at agreed value, $301.50.			

When the note and interest are collected at maturity, the transaction results in an increase in the asset cash $303.00, a decrease in the asset notes

receivable $300.00, a decrease in the asset accrued interest on notes receivable $1.50, and an increase in the interest income $1.50. When the required entry is made and posted, the Accrued Interest on Notes Receivable account will be in balance, and the Interest Income account will show a credit balance of $1.50, the amount of interest earned by Duncan Bros.

If desired, the interest accrued at the time the note is received may be recorded as a debit to the Interest Income account, and this account credited for the total interest collected at the maturity of the note. The final results are the same. Thus in the case illustrated, if the Interest Income account is debited for $1.50 at the time the note is received and credited for $3.00 at the time the note is collected, the credit balance will be $1.50, which is the same as in the method outlined in the preceding paragraph.

The Notes Receivable Register in the illustration below contains a record of the notes and acceptances received by Duncan Bros. in April and May. No. 90 has been collected as indicated by the statement in the remarks column. Nos. 93 and 94 are the notes mentioned in the transactions of May 11 and 12 on page 288. Nos. 89, 91 and 92 are referred to in subsequent paragraphs. The information in the remarks column is recorded at the time the note is collected, discounted or transferred.

NOTES RECEIVABLE REGISTER

DATE RECEIVED	OUR No.	MAKER (NOTE)	DRAWER (DRAFT)	PAYEE AND ENDORSER	WHERE PAYABLE	DATE OF PAPER	TIME	MATURITY	FACE VALUE	RATE OF INT.	REMARKS
19											
Apr. 4	89	G. L. Ray		Merchants Bank	Merchants Bank, Maywood	Apr. 1, 19	90 days	July 3	321 30	6%	Discounted May 19
10	90	A. L. Richardson		Duncan Bros.	Union Bank, City	Apr. 10, 19	30 days	May 10	200 40	6%	Paid May 10
26	91	Short Bros.		Duncan Bros.	First Natl. Bank, Dallas	Apr. 23, 19	60 days	June 22	279 50		Discounted at Merchants National Bank, May 12
May 9	92	Albert Cain		Duncan Bros.	Salem Bank & Trust Co.	May 2 19	60 days	July 1	450 -	6%	Discounted at Merchants National Bank, May 12
11	93	O. C. Kinner		A. B. Allen	Peoples Bank, City	Apr. 29, 19	90 days	July 28	600 -		Transferred to Archer & Lloyd, May 21
12	94	Chas. Atkinson		A. L. Cooley	Fourth Natl., Wilmington	Apr. 12, 19	60 days	June 11	300 -	6%	

Exercise 108, Notes Receivable

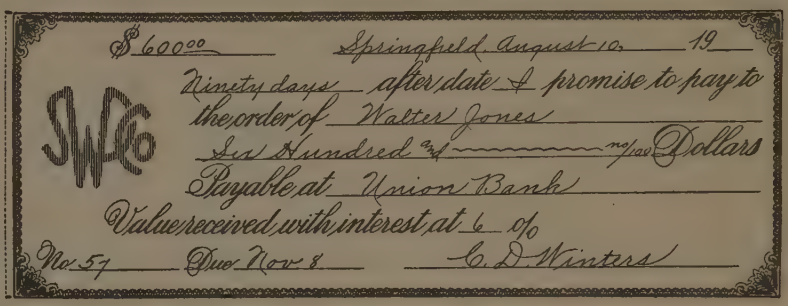
(ORAL OR WRITTEN)

1. May 5. Olds Bros. allowed Charles Durr, a charge customer, credit for $396.50 present value of a non-interest-bearing note receivable, face $400.00. What entry is required to record this transaction?

2. June 12. O. H. Pease & Son received from Charles Brink, a charge customer, a 60-day 6% interest-bearing note receivable dated May 13, face $400.00. Allowed credit for the agreed value $402.00. What entry is required to record this transaction if the interest is recorded in an account with Accrued Interest?

3. March 27. A. R. Roberts & Co. received from D. A. Allen, a charge customer, a 60-day non-interest-bearing note receivable dated March 7, face $350.00. Allowed credit for the present value $347.67, rate of interest 6%. What entry is required to record this transaction?

4. The note in the illustration at the right was received October 9 by Mann & Son from Walter Jones, a charge customer, to apply on account. (a) What information was shown in the indorsement? (b) How much credit will Jones receive if credit is allowed for the face plus interest accrued to October 9? (c) How will the entry be recorded by Mann & Son if interest is debited to an account with Interest Income? (d) What entry will be made when cash is received at maturity?


$600.00 Springfield, August 10, 19
Ninety days after date I promise to pay to
the order of Walter Jones
Six Hundred 00/100 Dollars
Payable at Union Bank
Value received with interest at 6 %
No. 57 Due Nov. 8 C. D. Winters

5. October 12. James Daws received from George Dover, a charge customer a 60-day 6% interest-bearing note dated September 29, face $800.00. Allowed credit for the face plus accrued interest. What entry in the general journal is required to record this transaction?

6. November 9. O. Jung received from D. A. Mills, a charge customer, a 60-day non-interest-bearing note, dated October 16, face value $800.00. Allowed credit for the present value, interest 6%. What entry is required to record this transaction?

DISCOUNTING NOTES

Discounting a Note. Borrowing money from the bank is usually referred to as *discounting a note*. When the borrower executes his own note as evidence of a loan, it is referred to as *discounting a note payable* and when he transfers to the bank a note receivable, *discounting a note receivable*. The time of a loan in which a note payable is discounted is the time stated in the note. The time of a loan in which a note receivable is discounted is the time between the date of the loan and the maturity of the note.

The amount of the loan when a note payable is discounted is the face of the note. The amount of the loan when a note receivable is discounted is the maturity value of the note; that is, the face if the note is non-interest bearing, or the face plus the interest to maturity if the note is interest-bearing. The bank collects interest on the amount of the loan. The borrower receives cash or credit for the *proceeds* of the loan which is the amount of the loan less the interest charged by the bank.

Discounting a Non-Interest-Bearing Note Receivable. When the holder of a note receivable wishes to receive the cash before maturity, he discounts the note at a bank. The proceeds of the loan resulting from discounting a non-interest-bearing note receivable is the face of the note less interest at the agreed rate from the date of discount to maturity of the note.

The borrower usually receives credit in his account for the proceeds; the amount is always less than the face of the note.

May 12. Duncan Bros. discounted note receivable No. 91 (page 289) at the Merchants National Bank, rate of discount 8%; received credit for $272.99.

This transaction results in an increase in the asset cash $272.99, a decrease in the asset notes receivable $275.50, and an increase in the interest expense $2.51. The general journal entry at the right and the cash book entry below show the method of recording this transaction. The Cash account is debited to record the increase in assets, the Interest Expense account debited to record the increase in expense, and the Notes Receivable account credited to record the decrease in assets.

May 12, 19

	√	Cash	272 99	
		Interest Expense	2 51	
		Notes Receivable		275 50
		Discounted Acceptance #91.		

CASH Receipts

19					
May	12	√	Notes Receivable	Proceeds of Acceptance #91	272 99

The entry in the cash book is necessary because all cash receipts are entered in this book. The check marks in the folio columns are to avoid double posting.

When the cash book and general journal entries are posted, the Notes Receivable account will be credited for the face of the note and the Interest Expense account debited for the interest; the debit to the Cash account will be through posting the total receipts at the end of the month.

When transactions of the nature described and illustrated in the preceding paragraph occur frequently, a column for Interest Expense may be provided on the receipts side of the cash book in the same manner as the Sales Discount column illustrated in a previous chapter. This special column for Interest Expense permits recording the transaction in the cash book only.

Discounting an Interest-Bearing Notes Receivable. When an interest-bearing note is discounted, the borrower will receive cash for the present value of the note which is the maturity value less interest at the agreed rate for the time of the loan. The borrower may receive more or less cash than the face of the note. When less cash is received than the face of the note, the increase in expense is the difference between the face of the note and the proceeds. When more cash is received than the face of the note, the increase in the income is the difference between the face of the note and the proceeds.

May 12. Duncan Bros. discounted note No. 92 (page 289) at the Merchants National Bank, rate of discount 8%; received credit for the proceeds, $448.74.

This transaction results in an increase in the asset cash $448.74, a decrease in the asset notes receivable $450.00, and an increase in the expenses $1.26. The general journal entry at the right and the cash book entry below show the method of recording this transaction. The Cash account is debited to record the increase in the assets, the Interest Expense account debited to record the increase in expense, and the Notes Receivable account credited to record the decrease in the assets.

May 12, 19

√	Cash	448 74	
	Interest Expense	1 26	
	Notes Receivable		450 —
	Discounted note No. 92.		

CASH — Receipts

19					
May	12	√	Notes Receivable	Proceeds of Note #92	448 74

The cash book entry is necessary because all cash receipts are entered in this book. The check marks in the folio columns are to avoid double posting.

May 19. Duncan Bros. discounted note No. 89 (page 289) at the Merchants National Bank rate of discount 8%. Received credit for the proceeds, $323.36.

This transaction results in an increase in the asset cash $323.36, a decrease in the asset notes receivable $321.80, and an increase in the interest income $1.56. This transaction recorded in the cash book is:

CASH — Receipts

19					
May	19		Notes Receivable	Discounted note #89	321 80
	19		Interest Income	Interest on note #89	1 56

Transferring a Note Receivable to a Creditor. When additional time is required for the payment of an obligation, the business may secure this time through issuing its own note payable or transferring a note receivable. The usual plan is to secure the time by issuing a note payable but it is possible to secure it through transferring a note receivable.

May 21. Duncan Brothers transferred Note No. 93 (see page 289) to Archer N. Clyde, a creditor, as part payment on a past due account; received credit for $593.20, its present value, interest rate 6%.

This transaction results in a decrease in the asset notes receivable $600.00, a decrease in the liability accounts payable $593.20 and a decrease in proprietorship of $6.80 because of the interest. The method of recording this

transaction is shown in the illustration at the left. The account with the creditor is debited to record the decrease in liabilities. the Interest Expense account is debited to record the increase in interest expense, and the Notes Receivable account is credited to record the decrease in assets.

May 21, 19

	Archer N. Clyde		593 20	
	Interest Expense		6 80	
	Notes Receivable			600 —
	Transferred note No. 93, face $600.00, to apply on account, $593.20, less interest, $6.80.			

Transfer of an Interest-bearing Note. When an interest-bearing note is transferred to a creditor and credit is allowed for the face and accrued interest, the usual plan is to debit the creditor with the face of the note and accrued interest and credit Notes Receivable for the face of the note and Interest Earned for the accrued interest. Thus, if an interest-bearing note for $1,000.00 is transferred and credit is allowed for $1,010.00, the transaction results in a decrease in the asset notes receivable $1,000.00, a decrease in the liability accounts payable $1,010.00, and an increase in interest income $10.00.

Contingent Liabilities. When the title of a note receivable is transferred through indorsement, the indorser guarantees payment at maturity if the maker does not pay it. The liability because of a guarantee through indorsement is referred to as a *contingent liability.*

If desired, this contingent liability may be recorded in an account with Notes Receivable Discounted at the time the title of a note receivable is transferred by indorsement. This allows the face value of the note to remain in the Notes Receivable account until the note is collected. When the note is collected, the Notes Receivable Discounted account is debited and the Notes Receivable account credited for the face of the note; this entry is made in the general journal.

July 2. Hope & Bear received credit at the First National Bank for $492.50, proceeds of note receivable No. 71; face, $500.00; discount, $7.50.

This transaction results in an increase in the asset cash $492.50, a decrease in the asset notes receivable $500.00, and an increase in the interest expense $7.50. It also results in a liability on the part of Hope & Bear for $500.00 because of the firm's indorsement on the note. The general journal entry at the right and the cash book entry at the top of page 294, show the method of recording this transaction so as to record the liability.

July 2, 19

√	Cash		492 50	
	Interest Expense		7 50	
	Notes Rec. Discounted			500 —
	Discounted note No. 71, face $500.00, proceeds $492.50.			

				Cash	Receipts	
19 July	2	√	Notes Receivable Discounted	Proceeds of note No. 71	492 50	

Assuming that note receivable No. 71 matures September 12 and there is no notice of protest from the bank, the entry in the illustration at the left will be made September 13. This entry removes the face of the note from the Notes Receivable account and removes the contingent liability from the ledger.

September 13, 192			
Notes Receivable Discounted	500 —		
Notes Receivable		500 —	
To cancel contingent liability on note receivable No. 71.			

Contingent Liability on the Balance Sheet. When the contingent liability is recorded as a credit to the Notes Receivable Discounted account, it will be shown on the Balance Sheet as a deduction from the balance of the Notes Receivable account. This is necessary because the asset value of the notes receivable is not the balance of the Notes Receivable account but the difference between the balance of the Notes Receivable account and the balance of the Notes Receivable Discounted account. The usual plan is to show the contingent liability as in the illustration at the right.

Notes Receivable	1250 —	
Less Notes Rec. Discounted	500 —	750 —

Exercise 109, Discounting and Transferring Notes Receivable

(ORAL OR WRITTEN)

1. Received credit at the bank for $298.00 proceeds of note No. 35, face $300.00. (a) How does this transaction affect the assets and expense? (b) How is it recorded?

2. Received credit at the bank for $505.00, proceeds of note No. 60, face $500.00. (a) How does this transaction affect the assets and income? (b) How is it recorded?

3. Gave A. N. Ball check for $108.50 and note receivable No. 75, face value $225.00 (present value, $221.50), in full of account $330.00. (a) How does this transaction affect assets, liabilities and expense? (b) How is it recorded?

4. Sold J. B. Meis merchandise, $600.00; terms, trade acceptance 90 days. When the trade acceptance was accepted, discounted it at the bank and received credit for proceeds, less 8%, $588.00. How will each of these three transactions be recorded?

5. Received credit at the bank for $202.50, proceeds of note receivable No. 87, face $200.00. (a) How will this transaction be recorded so as to show the contingent liability? (b) How will the contingent liability be removed if the note is honored at maturity?

Exercise 110, Discount and Transfer of Notes Receivable

Record each of the following transactions in the appropriate journals.

1. We owe J. B. Coulter & Co. $1,450.00. Made settlement as follows: check for $94.00; our note (note payable No. 61), face $600.00; and note receivable No. 96, face $750.00, agreed value $756.00.

2. J. L. Doll owes you $247.16. May 1. Received from him 60-day 6% interest-bearing note dated April 6, face of note $200.00, and check in full of account. Allowed credit for the face of the note and accrued interest.

3. Your non-interest-bearing note for $1,000.00 is due at the bank today, June 16. Gave the bank your 90-day 6% interest-bearing note for $500.00, a non-interest-bearing 90-day note receivable dated April 4, face value $460.00 (less 6%) and check in payment for the $1,000.00 note.

4. Your note for $800.00 in favor of Still Bros. is due today, October 4. You settle this note by giving Still Bros. a check for $300.00 and your two 6% interest-bearing notes for $250.00 each, due in 30 and 60 days respectively.

5. You owe W. O. Robb on account, $627.65. This is due today, October 5. You settle this by transferring to him a 90-day 6% interest-bearing note dated September 5, face $300.00, plus interest accrued to date, your 60-day interest-bearing note dated today for $127.65 and your check for the balance. Make the entry for yourself and for W. O. Robb.

Exercise 111, Discount and Transfer of Notes Receivable

Hodge & Long operate on an annual fiscal period basis. The debit balance of the Notes Receivable account, July 1, was $3,493.33. The notes on hand at that time are shown in detail in the notes receivable register below.

NOTES RECEIVABLE REGISTER

DATE RECEIVED		OUR No.	MAKER OR DRAWEE (NOTE) (DRAFT)	PAYEE AND ENDORSER	WHERE PAYABLE	DATE OF PAPER	TIME	MATURITY	FACE VALUE		RATE OF INT.	REMARKS
19												
June	5	72	R. L. Dodd	T. L. Macon	State National Bank, Albany	May 14	90 days	August 12	450	–	6%	
	10	73	W. L. Sand	City Bank	City Bank, St. Louis	June 10	60 days	August 9	276	50		
	16	74	R. J. Watts	State National Bank	State National Bank, Denver	June 16	60 days	August 15	300	50		
	20	75	D. N. King	P. J. Morton	Union Bank, Rochester	March 15	6 Mo.	Sept. 15	865	20	6%	
	22	76	Marion Ladd	C. B. Young	Farmers Bank, Pittsburg	April 27	90 days	July 26	521	80		
	25	77	Allen Kroger	Union Bank	Union Bank, Milwaukee	June 25	60 days	August 24	329	52		
	27	78	A. C. Upton	C. H. Quincy	Farmers Bank, Cleveland	April 22	90 days	July 21	486	40	6%	
	29	79	H. O. Gill	Hodge & Long	Merchants Bank, City	June 29	60 days	August 28	258	90	6%	

The following transactions were completed during July. Record them in the appropriate journal or journals.

9. Discounted note No. 72; rate of discount, 8%.
12. Discounted acceptance No. 73; rate of discount, 8%.
15. Transferred acceptance No. 77 to the Kline Mfg. Company, to apply on account. Received credit for the present value, rate of interest 6%.
18. Discounted note No. 75; rate of discount, 8%.
22. Received 60-day 6% interest-bearing note dated July 21 for $200.00 and check from A. C. Upton for note No. 78.

CHAPTER XXV

CONTROLLING ACCOUNTS

A controlling account is an account in the general ledger which shows in summary form the same information contained in a number of accounts in a separate ledger. The discussion in this chapter relates to the Accounts Receivable account and the Accounts Payable account as controlling accounts.

Accounts Receivable Control. The sale of merchandise or service for credit requires an account with each charge customer. When the accounts with charge customers are numerous, a more efficient method of recording the transactions is effected through the use of one account which shows in summary form the transactions completed with all charge customers. The use of the summary account referred to in the preceding sentence is known as an *accounts receivable control,* and the summary account as the *Accounts Receivable controlling account.*

The accounts receivable control provides (1) a saving of time in the preparation of the Trial Balance, (2) a more efficient means of locating errors when the Trial Balance does not balance, and (3) a division of the work with a means of proof when more than one bookkeeper is required to record the transactions. The saving of time in the preparation of the Trial Balance is effected through the omission from the Trial Balance of the various accounts with charge customers with one controlling account providing the needed information. When the Trial Balance does not balance, the error can be detected without checking the entries in the accounts with the various charge customers. If two or more bookkeepers are required to record the transactions one may record the transactions with charge customers and know from the balance of the controlling account that the records are correct.

To maintain an accounts receivable control, an account is kept with each charge customer usually in a separate ledger, known as the *accounts receivable ledger* and referred to as a *subsidiary ledger.* The ledger which contains all the accounts except those with charge customers and contains a summary of these in one account is referred to as the *general ledger.* The title of each account in the accounts receivable ledger is the name and address of the charge customer. The title of the summary or control account in the general ledger is Accounts Receivable.

Recording Transactions for Accounts Receivable Control. Each sale on credit is recorded in the sales journal and the amount is posted to the debit of the account with the customer in the accounts receivable ledger. At the end of the month, the Sales account in the general ledger is credited for the total sales and the Accounts Receivable account in the general ledger is debited for the same amount.

A column is provided on the receipts side of the cash book for "Accounts Receivable Cr." When cash is received from a charge customer, the amount is entered in this column and posted to the credit of the account with the customer in the accounts receivable ledger. At the end of the month, the Accounts Receivable account in the general ledger is credited with the total of the "Accounts Receivable" column. Transactions involving cash discount are recorded in the same manner as when the Accounts Receivable control account is not maintained.

A column is provided in the general journal for "Accounts Receivable Cr." When a charge customer is to receive credit for the value of an asset other than cash, the amount is entered in this column and posted to the credit of the account with the charge customer in the accounts receivable ledger. At the end of the month, the Accounts Receivable account in the general ledger is credited with the total of the "Accounts Receivable" column.

Trial Balance. When an accounts receivable control is maintained, the Trial Balance is prepared from the general ledger without reference to the accounts in the accounts receivable ledger. When the Trial Balance from the general ledger is in balance, the account balances in the accounts receivable ledger are proved by comparing the total of all debit balances, less any credit balances, with the balance of the Accounts Receivable account. A list of the open accounts in the accounts receivable ledger is referred to as an *abstract of the accounts receivable ledger*.

When the Trial Balance from the general ledger does not balance, the error is detected through auditing the entries in the general ledger. When the total of the abstract of the accounts receivable ledger does not agree with the balance of the Accounts Receivable account in the general ledger, the error is detected through auditing the entries in the accounts receivable ledger.

Exercise 112, Accounts Receivable Control

(ORAL OR WRITTEN)

1. The ledger of the R. L. Childs Company contains eight hundred open accounts, seven hundred fifty of which are with charge customers. With an accounts receivable control, how many accounts would be (a) in the general ledger? (b) in the accounts receivable ledger?

2. The account in the illustration at the left contains a record in summary form of all the transactions with charge customers. From what journal was (a) the debit amount posted? (b) the first credit amount, assuming that it is cash? (c) the second credit amount? (d) Which journals contain special columns? (e) What is the title of each column?

ACCOUNTS RECEIVABLE

19 Jan.	31			68	19752	43	19 Jan.	31		88	12318	15	
								31		15	416	17	

3. A Trial Balance prepared from the general ledger is out of balance $1.20, and it is necessary to check the posting in order to detect the error. (a) From which journals will the posting be checked? (b) What facts recorded in each journal will be checked?

4. The balance of the Accounts Receivable account in the general ledger is $21,254.75; the sum of the balances of the accounts in the accounts receivable ledger is $21,256.25. If the general ledger Trial Balance balances, what journals and columns will be audited to detect this error?

5. Will an error of $10.00 in the addition of the sales journal affect the general ledger Trial Balance or the abstract of the accounts receivable ledger?

6. The balance of the Accounts Receivable Control account is $12,418.35 and the abstract of the accounts receivable ledger is $12,420.85. The error resulted from the failure to list on the abstract of the accounts receivable ledger an account with a charge customer. (a) What was the balance of this account? (b) Was it a debit or a credit?

ACCOUNTS PAYABLE CONTROL

Accounts Payable Control. The purchase of merchandise or service for credit requires an account with each creditor. When the accounts with creditors are numerous, a more efficient method of recording the transactions is effected through the use of one account which shows in summary form the transactions completed with all creditors.

The use of the summary account referred to in the preceding paragraph is known as an *accounts payable control,* and the summary account as the *Accounts Payable controlling account.* The subsidiary ledger in which the accounts with creditors are kept is referred to as the *accounts payable ledger;* this is usually a separate ledger.

The accounts payable control provides (1) a saving of time in the preparation of the Trial Balance, (2) a more efficient means of locating errors when the Trial Balance does not balance, and (3) a division of the work with a means of proof when more than one bookkeeper is required to record the transactions.

Recording Transactions for Accounts Payable Control. Each purchase on credit is recorded in the purchases journal and the amount posted to the credit of the account with the creditor in the accounts payable ledger. At the end of the month, the Purchases account in the general ledger is debited for the total purchases and the Accounts Payable account in the general ledger credited for the same amount.

A column is provided on the payments side of the cash book for "Accounts Payable Dr." When cash is paid to a creditor, the amount is entered in this column and posted to the debit of the account with the creditor in the accounts payable ledger. At the end of the month, the Accounts Payable account in the general ledger is debited with the total of the "Accounts Payable" column. Transactions involving cash discount are recorded in the same manner as when the control account is not maintained.

A column is provided in the general journal for "Accounts Payable Dr." When a creditor allows credit for the value of an asset other than cash, the amount is entered in this column and posted to the debit of the account with the creditor in the accounts payable ledger. At the end of the month, the Accounts Payable account in the general ledger is debited with the total of the "Accounts Payable" column.

Trial Balance. When an accounts payable control is maintained, a Trial Balance may be prepared from the general ledger without reference to the accounts in the accounts payable ledger. When the Trial Balance from the general ledger is in balance, the accounts in the accounts payable ledger are proved to be correct by comparing the total balances with the balance of the Accounts Payable account in the general ledger. A list of the open accounts in the accounts payable ledger is referred to as an *abstract of the accounts payable ledger*.

When the Trial Balance prepared from the general ledger does not balance, the error is detected through auditing the entries in the general ledger. When the total of the abstract of the accounts payable ledger does not agree with the balance of the Accounts Payable account in the general ledger, the error is detected through auditing the entries in the accounts payable ledger.

Other Control Accounts. The purpose of all accounting is to provide information in the most efficient manner and to provide a check on the work of each bookkeeper when more than one bookkeeper is required to record the transactions. Thus, if a branch store is maintained, a bookkeeper at the branch store may record all the transactions completed by it, and the check on his books is provided through a control account with the branch in the general ledger of the main store. When a control account is maintained in the general ledger, it is customery to provide separate subsidiary ledgers in which to record the accounts controlled by each account in the general ledger.

Exercise 113, Accounts Receivable and Payable Control

(ORAL OR WRITTEN)

1. The ledger of Carol Bros. contains twelve hundred accounts, eight hundred of which are with charge customers and three hundred forty with creditors. (a) How many accounts will the general ledger contain with an accounts receivable and accounts payable control? (b) How many accounts will each of the subsidiary ledgers contain? (c) What will be the title of each of the subsidiary ledgers?

2. Through error, the bookkeeper failed to post a purchase return of $9.50 recorded in the general journal. What effect will this have (a) on the creditor's account? (b) on the Accounts Payable control account?

3. The account in the illustration at the top of page 300 contains a record in summary form of all the transactions with creditors. From what journal was

(a) the credit amount posted? (b) the first debit amount, assuming that it is the sum of the cash paid creditors? (c) the second debit amount? (d) Which journals contain special columns? (e) What is the title of each of these columns?

ACCOUNTS PAYABLE

19						19					
May	31		89	10597	85	May	31		37	14129	50
	31		15	381	22						

4. A Trial Balance prepared from the general ledger is out of balance $2.40 and it is necessary to check the posting in order to detect the error. (a) From which journals will the posting be checked? (b) What facts recorded in each journal will be checked.

5. The balance of the Accounts Payable account in the general ledger is $18,550.00 and the total of the accounts payable abstract is $18,540.00. The error when detected was found to have been made in listing the balance of an account with a creditor. How much was this account balance under or over stated on the abstract?

6. The Royal Mercantile Company requires the services of three bookkeepers, referred to as general bookkeeper, accounts receivable bookkeeper, and accounts payable bookkeeper. (a) How will the accounts receivable bookkeeper know that the accounts receivable abstract which he prepares at the close of each month is correct? (b) How will the accounts payable bookkeeper know that his abstract is correct? (c) Whose ledger will be affected through an error of $100.00 in the addition of the purchases journal? (d) through an error of $20.00 in the addition of the sales journal.

7. The balance of the Accounts Payable account is $31,516.40 and the total of the abstract of the accounts payable ledger is $31,527.90. The error resulted from posting a purchase return to the wrong side of a creditor's account. (a) How much was this purchase return? (b) How was it posted?

CONTROLLING ACCOUNTS ILLUSTRATED

Illustrations. The method of recording transactions when accounts are maintained in the general ledger with Accounts Receivable and Accounts Payable is further explained by illustrations. These illustrations include the books of original entry which contain a record of the transactions completed during the month of January by Helm & Stein, a partnership engaged in the wholesale jewelry business.

Purchases Journal. The purchases journal illustrated on page 301 contains a record of the fourteen purchases on credit made during the month of January. The form of ruling and method of recording the transactions is the same as that shown in purchases journals in previous illustrations.

The check marks in the folio columns, Illustrations Nos. 56, 57, 58, 59 and 60, indicate posting to loose leaf accounts payable and accounts receivable ledgers. In a loose leaf ledger the accounts are arranged alphabetically, hence it is not practical to page the ledger.

PURCHASES JOURNAL PAGE 1

January 19

DATE	L. F.	ACCOUNT CREDITED	ADDRESS	TERMS	INV DATE	AMOUNT
2	✓	Art Jewelry Co.	Los Angeles	3/10-n/30	12/26	627 50
2	✓	Elgin Natl. Watch Co.	Elgin	Feb. 1, 2/10, n/30	12/28	948 75
2	✓	Star Jewelry Mfg. Co.	Columbia	1/10-n/30	12/29	527 25
2	✓	American Clock Co.	New London	2/30-n/60	12/28	428 65
3	✓	Keystone Watch Co.	City	4/10-n/30	1/2	1227 —
3	✓	Briggs Bros.	Providence	2/30-n/60	1/2	318 80
6	✓	Acme Ring Co.	St. Louis	3/10-n/60	1/3	718 45
9	✓	Sweet Mfg. Co.	Cambridge	1/10-n/60	1/5	375 20
18	✓	M. Joffe & Bro.	Columbia	1/10-n/30	1/15	237 50
22	✓	L. G. Uhlman & Co.	Albany	3/10-n/30	1/19	821 75
25	✓	Block Ring Co.	Philadelphia	2/10-n/30	1/23	514 30
27	✓	Marsh Mfg. Co.	Portland	1/10-n/30	1/25	621 65
29	✓	Waltham Watch Co.	Waltham	2/10-n/30	1/27	855 40
31	✓	Fisher & Co.	Boston	Mar. 1, 1/10, n/30	1/27	2759 0
31	81	Purchases Dr. & Accounts Payable Cr.		(43)		8498 10

Illustration 56, Purchases Journal

Daily Posting from the Purchases Journal. Each amount in the amount column is posted to the credit of the account in the accounts payable ledger written on the same line with it. The illustration below shows the method of posting the first entry in the above purchases journal to the account with the creditor in the accounts payable ledger.*

Art Jewelry Co. Los Angeles

DATE	EXPLANATION	P.	DEBIT	CREDIT	BALANCE
19 Jan. 2	Dec. 26, 3/10, n/30	P1		627 50	627 50

Posting the Purchases Journal Totals. At the end of the month the total purchases is posted to the debit side of the Purchases account and to the credit side of the Accounts Payable account in the general ledger. The illustration below shows the method of posting the purchases journal totals.

Purchases PAGE 81

19 Jan.	31			P1	8	4	9	8	1	0													

Accounts Payable PAGE 43

												19 Jan.	31		P1	8	4	9	8	1	0		

*Columns are provided for Debit, Credit and Balance. The effect of each posting on the balance is shown by entering the new balance in the "Balance" column at the time of posting, or when a Trial Balance is prepared.

The Sales Journal in the illustration below contains a record of the twenty-five sales on credit made during the month of January. Each sale is recorded on one horizontal line. Three amount columns are provided (a) the amount of the sales invoice, (b) the selling price of the merchandise, and (c) postage and insurance. The postage and insurance column is required because of insured parcel post shipments.

The premium on insurance for mail packages when insured with an insurance company, is usually paid through purchasing a coupon book; the amount paid for the coupon book is the premium. The coupons, each of which is an insurance policy for $25.00, are removed from the book and inclosed in the package with the merchandise or in the envelope in which the invoice is mailed. The invoice shows the sale value of the merchandise, the stamps required to mail the package, and the insurance. The value of the package will determine the number of coupons required to insure it.

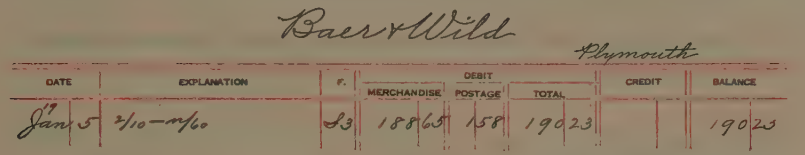
SALES JOURNAL — PAGE 1

January 19

DATE	L.F.	ACCOUNT DEBITED	ADDRESS	TERMS	SALE NO.	ACCOUNTS REC. LEDGER DR.	SALES CR.	POST & P P INS. CR.
3	✓	F. S. Groton	9th & Main, City	2/10 — n/60	1	51720	51720	
4	✓	W. M. Jett & Son	Riverside	3/30 — n/90	2	38501	38175	326
5	✓	Baer & Wild	Plymouth	2/10 — n/60	3	19023	18865	158
5	✓	Brun & Mill	Greenville	90 days 6% note	4	51840	51840	
8	✓	M. L. Kahn & Co.	Astoria	3/30 — n/90	5	31878	31650	228
9	✓	Spencer & Spencer	821 Main St., City	net 10 days	6	42175	42175	
10	✓	Putnam Jewelry Co.	Oakland	2/10 — n/60	7	12572	12465	107
12	✓	Burr Bros.	Norfolk	2/10 — n/60	8	16122	160 —	122
15	✓	Spies Bros.	Logan	3/30 — n/90	9	31783	31545	238
15	✓	Rex A. Porter	Reading	2/10 — n/60	10	20150	20150	
15	✓	Loeb & Lee	Rochester	3/30 — n/90	11	45906	45525	381
17	✓	Kidd & Russ	214 E. Mill St., City	Tel., 2/10 — n/60	12	74275	74275	
17	✓	Fox & Ernst	Newton	2/10 — n/60	13	32150	32150	
19	✓	F. S. Groton		2/10 — n/60	14	18555	18555	
19	✓	Spiro & Sobel	Dayton	3/30 — n/90	15	41828	41525	303
22	✓	Spencer & Spencer		3/30 — n/90	16	41640	41640	
22	✓	Trofky & Berlin	Dover	2/10 — n/60	17	32098	31645	453
23	✓	Bent & Bush	Greenfield	3/30 — n/90	18	41988	41645	343
23	✓	F. S. Groton		3/30 — n/90	19	29845	29845	
24	✓	K. C. Bunker	Uniontown	C.O.D.	20	120 —	120 —	
25	✓	Fox & Ernst		2/10 — n/60	21	32250	32250	
25	✓	M. Wahl & Co.	Wabash	3/30 — n/90	22	12869	12755	114
27	✓	Kidd & Russ		2/10 — n/60	23	80 —	80 —	
29	✓	J. J. Wald & Co.	Grand Rapids	C.O.D.	24	20475	20475	
29	✓	F. S. Groton		2/10 — n/60	25	12150	12150	
31	5	Accounts Receivable Dr.				771793		
31	75	Sales Cr.					769020	
31	29	Postage & P.P. Insurance, Cr.						2773

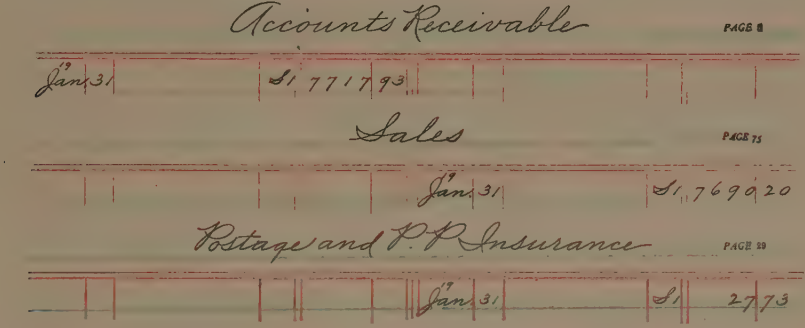
Illustration 57, Sales Journal

Daily Posting from the Sales Journal. The amounts entered in the first, second, and third columns are posted to the debit of the account in the accounts receivable ledger written on the same line with them. The account in the illustration below shows the method of posting the third entry in the sales journal to the account with the charge customer in the accounts receivable ledger.



The three amounts are shown in separate columns because the charge customer is entitled to discount on the amount of the sale but not on the amount of the postage and insurance. The amount in the total column is also entered in the "Balance" column at the time of posting, or the balance of the account may be entered when a Trial Balance is prepared.

Posting the Sales Journal Totals. At the end of the month the total of each column is posted to the account in the general ledger indicated by the title written at the top of the column. The accounts in the illustration below show the method of posting the totals of three columns at the end of January.



The Accounts Receivable account is debited for the total of the first column, the Sales account credited for the total of the second column, and the Postage and Parcel Post Insurance account credited for the total of the third column. Since the total of the first column equals the sum of the totals of the second and third columns, posting as suggested maintains the equality of the debits and credits in the general ledger.

The debits to the Postage and Parcel Post Insurance account will be made through posting the fourth entry in the cash book, page 305. The value of the stamps and insurance coupons January 31 should be $93.57; if it is less, some stamps were used for office mail.

The Cash Book on pages 304 and 305 contains a record of the cash receipts and payments for the month of January, the receipts on the left and payments on the right. Four columns are provided on each side as explained in the preceding discussion. All amounts of cash received are entered in the fourth column on the receipts side and all amounts of cash paid are entered

(Continued on page 306)

PAGE 2

Cash Receipts

January, 19

DATE	L. F.	ACCOUNT CREDITED	EXPLANATION	GENERAL LEDGER CR.	ACCOUNTS REC LEDGER CR	SALES DISCOUNT DR	NET CASH DR
2	61	R. S. Helm, Capital	Investment	12500 —			12500 —
2	63	A. N. Stein, Capital	Investment	12500 —			12500 —
9	75	Sales	Cash sales	250 —			250 —
13	✓	F. S. Groton	In full of acct. less dis.		51720	1034	50686
16	✓	Baer & Wild	" " " " " "		19023	377	18646
16	✓	Notes Payable	Proceeds of loan	1980 —			1980 —
19	✓	Spencer & Spencer	In full of acct.		12175		12175
20	✓	Putnam Jewelry Co.	In full of acct. less dis.		12572	249	12323
22	75	Sales	Cash sales	125 —			125 —
22	✓	Burr Bros.	In full of acct. less dis.		16122	320	15802
24	✓	R. C. Bunker	½ C. O. D. sale		60 —		60 —
25	✓	Rex A. Porter	In full of acct. less dis.		20150	403	19747
27	137	Interest Income	2% on daily bank bal.	2160			2160
27	✓	Fox & Ernst	In full of acct. less dis.		32150	643	31507
29	✓	F. S. Groton	" " " " " "		18555	371	18184
29	✓	J. J. Wild & Co.	Account of C. O. D. sale		50 —		50 —
31	75	Sales	Cash sales	37525			37525
				27751 85	193467	3397	27652 53
31	5	Accounts Receivable Cr.			193467		
31	145	Sales Discount Dr.				3397	
31	1	Cash Dr.					2965253
							2965253
Feb.	1	Balance		876733			876733

Illustration 58, Receipts Side of the Cash Book

Cash Payments

January, 19 — PAGE 3

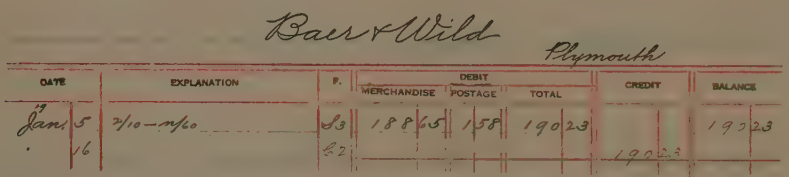
DATE	L. F.	ACCOUNT DEBITED	CHECK NO	GENERAL LEDGER DR.	ACCOUNTS PAY. LEDGER DR	PURCH DISCOUNT CR	NET CASH CR
2	115	Rent Expense	1	300—			300—
2	29	Postage and P.P. Insurance	2	150—			150—
3	✓	W. H. Barnes	3	13250—			13250—
4	29	Postage and P.P. Insurance	4	100—			100—
5	✓	Art Jewelry Co.	5		62750	1883	60867
6	101	Store Salaries	6	80—			80—
6	111	Office Salaries	6	100—			100—
6	103	Delivery Expense	6	15—			15—
				13975—	62750	1883	60867
8	✓	Starr Jewelry Mfg. Co.	7		52725	527	52198
8	23	Office Supplies	8	12675			12675
9	27	Prepaid Insurance	9	240—			240—
12	✓	Keystone Watch Co.	10		11271—	4508	108192
13	✓	Acme Ring Co.	11		71845	2155	69690
13	101	Store Salaries	12	80—			80—
13	111	Office Salaries	12	100—			100—
13	103	Delivery Expense	12	15—			15—
				14556 75	300020	9073	1706622
15	117	Miscellaneous Expense	13	750			750
15	✓	Sweet Mfg. Co.	14		37520	375	37145
15	113	Partners Salaries	15	500—			500—
20	101	Store Salaries	16	80—			80—
20	111	Office Salaries	16	100—			100—
20	103	Delivery Expense	16	15—			15—
				15259 25	337540	9448	1854017
22	117	Miscellaneous Expense	17	585			585
25	✓	M. Joffe & Bro.	18		220—	220	21780
26	25	Store Supplies	19	8275			8275
27	✓	American Clock Co.	20		42865	857	42008
27	101	Store Salaries	21	80—			80—
27	111	Office Salaries	21	100—			100—
27	103	Delivery Expense	21	15—			15—
				15542 85	402645	10125	1946145
29	85	Freight In	22	12647			12647
29	✓	L. G. Uhlman & Co.	23		82175	2065	79710
31	113	Partners Salaries	24	500—			500—
				16169 32	485180	12990	2088122
				16169 32			
31	43	Accounts Payable Dr.			485180		
31	135	Purchases Discount Cr.				12990	
31	1	Cash Cr.					208822
31	✓	[illegible]					[illegible]
							296552

Illustration 59, Payments Side of the Cash Book

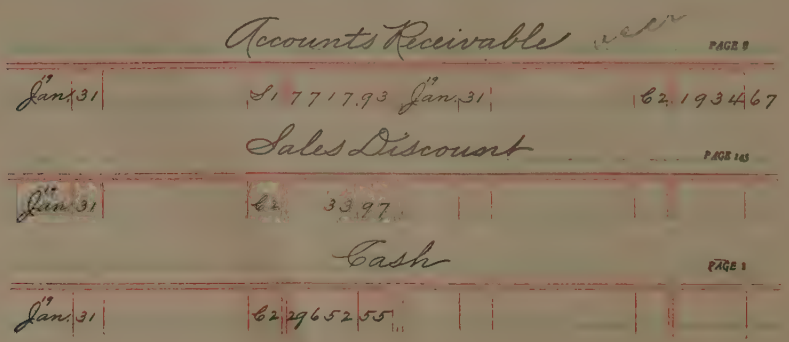
in the fourth column on the payments side. Amounts to be posted to the accounts in the general ledger are entered in the first column on each side. When cash is received from a charge customer for a sale less discount, the amount of the bill is entered in the second column on the receipts side and the sales discount, if any, in the third column. Cash payments subject to discount are recorded on the payments side in the same manner.

Cash is proved by footing the four columns on each side. The sum of the first and second columns minus the sum of the third column should equal the total of the fourth column on each side. The difference between the total of the fourth column on the receipts side and the total of the fourth column on the payments side should be the amount of cash in the bank or the sum of the cash in the bank and on hand.

Daily Posting of Cash Receipts. Each amount entered in the first column is posted to the credit of the account in the general ledger written on the same line with it. Each amount in the second column is posted to the credit of the account in the accounts receivable ledger written on the same line with it. The amounts entered in the third and fourth columns are not posted daily. The account in the illustration below shows the account in the accounts receivable ledger when the fifth entry in the cash book has been posted. The debit to this account is the result of posting the third entry in the sales journal illustrated on page 302.



Posting Cash Receipts Totals. At the end of the month the totals of the second, third and fourth columns are posted to the appropriate accounts as indicated by the title at the top of each column. The total of the first column is not posted because each amount entered in this column is posted daily. The accounts in the illustration below show the results of posting the totals on the receipt side of the cash book, page 304.



Daily Posting of Cash Payments. Each amount entered in the first column is posted to the debit of the account in the general ledger written on the same line with it. Each amount in the second column is posted to the debit of the account in the accounts payable ledger written on the same line with it. The amounts entered in the third and fourth columns are not posted daily. The account illustrated below shows the account in the accounts payable ledger after the fifth entry in the cash book has been posted. The credit to this account is the result of posting the first entry in the purchases journal, page 301.

Art Jewelry Co. Los Angeles

DATE	EXPLANATION	F	DEBIT	CREDIT	BALANCE
Jan. 2	Dec. 26. 3/10, n/30	P1		627 50	627 50
5		63	627 50		

Posting Cash Payments Totals. At the end of the month, the totals of the second, third and fourth columns are posted to the appropriate accounts as indicated by the title at the top of each column; the total of the first column is not posted because each amount entered in this column is posted daily. The accounts in the illustration below show the results of posting the totals on the payments side of the cash book, page 305.

Accounts Payable PAGE 43

19 Jan. 31		63	4845 80	19 Jan. 31	P1 8498 10

Purchases Discount PAGE 135

				19 Jan. 31	63 129 90

Cash PAGE 1

19 Jan. 31		62	29,652 55	19 Jan. 31	63 20885 22

The General Journal on page 308 contains a record of the transactions completed in January which could not be recorded in the special journals. The ruling of this journal is the same as in previous journals illustrated except two extra columns are provided for transactions affecting accounts in the accounts payable ledger and the accounts receivable ledger. These columns are necessary in order that the total of the amounts posted to the subsidiary ledger may be posted to the control accounts in the general ledger.

Daily Posting from the General Journal. Each amount entered in the first column is posted to the debit of the account in the general ledger written on the same line with it. Each amount entered in the second column

(Continued on page 309)

January 2, 19

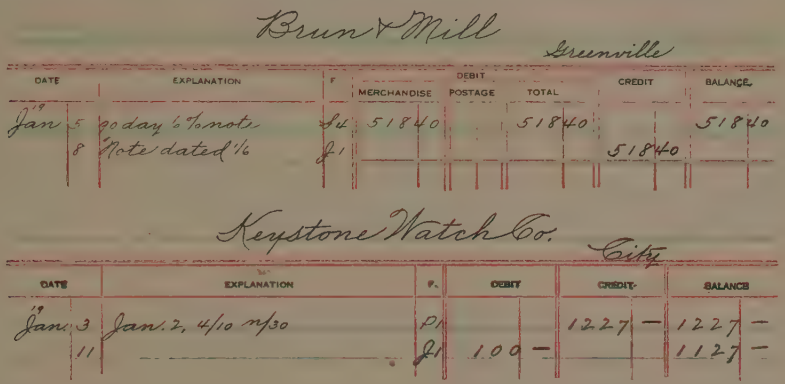
PAGE 1

L. F	NAME OF ACCOUNT AND EXPLANATION	GENERAL LEDGER DR	GENERAL LEDGER CR	ACCOUNTS PAY. LEDGER DR.	ACCOUNTS REC. LEDGER CR.
11	Merchandise Inventory	5500 —			
35	Office Equipment	1950 —			
36	Store Equipment	550 —			
25	Store Supplies	250 —			
✓	W. N. Barnes		18250 —		
	Bought stock of jewelry, equipment and store supplies per bill of sale				
	3				
✓	W. N. Barnes	5000 —			
41	Notes Payable		5000 —		
	Gave 90 day 6% note on acct.				
	8				
3	Notes Receivable	51840			
✓	Brun & Mill				51840
	Note No. 1 dated 1/6				
	8				
77	Sales Returns and Allowances	20 —			
✓	W. M. Jett & Son				20 —
	Returned 1 #125 ring				
	11				
✓	Keystone Watch Co.			100 —	
83	Purchases Returns and Allowances		100 —		
	Returned 6 #104 watches				
	16				
✓	Cash	1980 —			
147	Interest Expense	20 —			
41	Notes Payable		2000 —		
	Note No. 2, Loan — C. N. Bank				
	19				
3	Notes Receivable	300 —			
✓	Spencer & Spencer				300 —
	Note No. 2				
	20				
✓	M. Joffe & Bro.			1750	
83	Purchases Returns and Allowances		1750		
	Returned 1 #145				
		26088 40	25367 50	1175 0	538 40
		26088 40	25367 50	11750	83840
				(43)	(5)

Illustration 60, General Journal

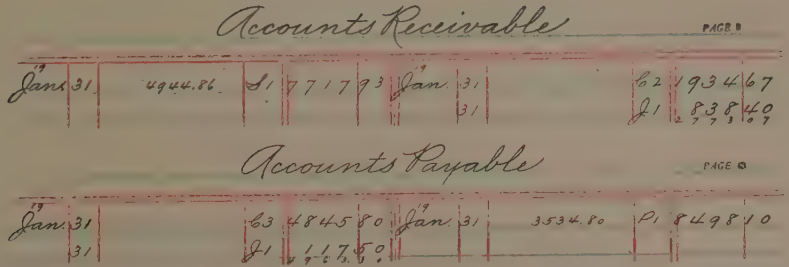
is posted to the credit of the account in the general ledger written on the same line with it. Each amount entered in the third column is posted to the debit of the account in the accounts payable ledger written on the same line with it. Each amount entered in the fourth column is posted to the credit of the account in the accounts receivable ledger written on the same line with it.

The accounts in the illustration below show the account in the accounts receivable ledger when the third entry in the general journal page 308 is posted and the account in the accounts payable ledger when the fifth entry is posted.



Brun & Mill, a charge customer, is credited with the face of the note in the third entry and Keystone Watch Company, a creditor, is debited with the amount of the return in the fifth entry. The debit to the account with Brun & Mill is the result of posting the fourth entry in the sales journal, page 302, and the credit to the Keystone Watch Company is the result of posting the fifth entry in the purchases journal, page 301.

Posting the General Journal Totals. At the end of the month the totals of the third and fourth columns are posted to the accounts in the general ledger indicated by the titles written at the top of the columns. The totals of the first and second columns are not posted because each amount has been posted separately. The accounts illustrated below show the Accounts Receivable and Accounts Payable accounts illustrated on pages 306 and 307 after the totals of the third and fourth columns in the general journal are posted.



General Ledger Trial Balance. When the posting to the general ledger as described is completed, the sum of the debits recorded therein should

equal the sum of the credits. Proof of this equality is secured through a Trial Balance prepared from the open accounts in the general ledger.

Abstract of Accounts Receivable Ledger. The account balances in the illustration at the right appear in the accounts receivable ledger of Helm & Stein, January 31. These are the result of posting from the preceding illustrations to the accounts receivable ledger. The posting includes the sales journal and the accounts receivable columns in the cash book and general journal. The total agrees with the balance of the Accounts Receivable account on page 309.

Schedule of Accounts Receivable, Jan. 31, 19

F. L. Groton	419 95
W. M. Jett & Son	365 01
M. L. Kahn & Co.	318 78
Spencer & Spencer	416 40
Spies Bros.	317 83
Loeb & Lee	459 06
Kidd & Russ	822 75
Fox & Ernst	322 50
Spiro & Sobel	418 28
Trofky & Berlin	320 98
Bent & Bush	419 88
M. Wahl & Co.	128 69
J. J. Wild & Co.	154 75
K. E. Bunker	60 —
	4944 86

Abstract of Accounts Payable Ledger. The account balances in the illustration at the left appear in the accounts payable ledger of Helm & Stein, January 31. These are the result of posting from the preceding illustrations to the accounts payable ledger. The posting includes the purchases journal and the accounts payable columns in the cash book and general journal. The total agrees with the balance of the Accounts Payable account on page 309.

Schedule of Accounts Payable, Jan. 31, 19

Elgin National Watch Co.	948 75
Briggs Bros.	318 80
Block Ring Co.	514 30
Marsh Mfg. Co.	621 65
Waltham Watch Co.	855 40
Fisher & Co.	275 90
	3534 80

SUMMARY

Controlling Accounts. The purpose of controlling accounts is to facilitate recording the transactions in the journals and ledger, also to provide for the services of more than one bookkeeper. A controlling account may be maintained with any group of accounts the balances of which all belong to the same type.

The Accounts Receivable Control Account is a summary in the general ledger of the transactions with all charge customers as recorded in separate accounts in the accounts receivable ledger. This account is *debited* at the end of the month for the total increases in the asset accounts receivable which is the total of the sales journal; it is *credited* at the end of the month for the total decreases which includes the total of the accounts receivable ledger column in the cash book and in the general journal. The *debit* balance which is an asset shows the total amount to be collected from charge customers.

The Accounts Payable Control Account is a summary in the general ledger of the transactions with all creditors as recorded in separate accounts in the accounts payable ledger. This account is *credited* at the end of the month with the increases in the liability accounts payable which is the total of the purchases journal; it is *debited* at the end of the month for the total decreases which includes the total of the accounts payable ledger column in the cash book and the accounts payable ledger column in the general journal. The *credit* balance which is a liability shows the total indebtedness to creditors.

The Postage and Parcel Post Insurance Account is a record of the increases and decreases in the asset postage and parcel post insurance. This account is *debited* at the time of purchase for the increases which include the cost of insurance coupon books and postage stamps; it is *credited* at the end of the month for the decreases, which include the insurance coupons and stamps used. The *debit* balance of this account which is an asset shows the value of the insurance coupons and postage on hand.

Exercise 114, General Ledger Trial Balance

It is desired to show in the general ledger a record of the transactions completed by Helm & Stein during the month of January. These transactions are recorded in the purchases journal, page 301, sales journal, page 302, cash book, pages 304 and 305, and the general journal, page 308. Open accounts with the account titles below, allowing five lines for each.

Cash, Notes Receivable, Accounts Receivable, Merchandise Inventory, Office Supplies, Store Supplies, Prepaid Insurance, Postage and Parcel Post Insurance, Office Equipment, Store Equipment, Notes Payable, Accounts Payable, R. S. Helm Capital, A. N. Stein Capital, Sales, Sales Returns and Allowances, Purchases, Purchases Returns and Allowances, Freight In, Store Salaries, Delivery Expense, Office Salaries, Partners Salaries, Rent Expense, Miscellaneous Expense, Purchases Discount, Interest Income, Sales Discount, and Interest Expense.

Post the entries and the totals which affect the accounts in the general ledger as instructed in connection with the illustrations, and prove the posting with a Trial Balance.

Exercise 115, Abstract of Accounts Receivable Ledger

It is desired to show a record in account form of the transactions with the customers of Helm & Stein as a result of the transactions completed during January as shown by the record of these transactions in the sales journal, page 302, the general journal, page 308, and the receipts and payments sides of the cash book, pages 304 and 305.

You are to provide this information by posting to accounts with customers allowing seven lines for each account. When posting from the sales journal, post the amount of the sale and the postage and insurance on two lines if the special ruled ledger paper is not available. When the posting is completed, prove its correctness by an abstract of the accounts receivable ledger. The total of the account balances resulting from this posting should be the same as the balance of the Accounts Receivable account on the Trial Balance which you prepared in Exercise 114.

Exercise 116, Abstract of Accounts Payable Ledger

It is desired to show a record in account form of the transactions with the creditors of Helm & Stein as a result of the transactions completed during January as shown by the record of these transactions in the purchases journal on page 301, the general journal, page 308, and the cash book, pages 304 and 305.

You are to provide this information by posting to accounts with creditors allowing five lines for each account. When the posting is completed, prove its correctness by an abstract of the accounts payable ledger. The total of the account balances resulting from this posting should be the same as the balance of the Accounts Payable account on the Trial Balance which you prepared in Exercise 114.

PRACTICE SET 4

A narrative of the transactions is provided in connection with the special ruled blanks required for recording the transactions. Full information regarding the work to be done in this practice set is given in connection with the business papers which represent the transactions or in connection with the narrative of the transactions, if the business papers are not used.

CHAPTER XXVI

DEFERRED CHARGES AND THE INSURANCE REGISTER

The need for supplies and insurance and the method of recording transactions in which supplies and insurance are purchased has been explained in previous chapters. The discussion in this chapter provides a review, and additional information in regard to (1) the accounts needed with deferred charges and (2) the insurance register.

Deferred Charges. Assets and services purchased for use in the business which will be consumed by their use within a short time are usually referred to as *deferred assets* or *deferred charges*. The term "deferred" indicates that these assets will be consumed in a short time. Deferred charges usually include *supplies* of various kinds, *prepaid services* such as insurance, and *prepaid interest on notes payable.*

Recording Supplies Purchased. Supplies consist of wrapping paper, twine and containers for merchandise sold, office stationery, postage, and fuel for heating purposes. The cost of all supplies purchased may be recorded in one account with Supplies or in separate accounts with titles which describe the use of the supplies. The usual titles for the supply accounts are Store Supplies, Office Supplies, Postage, and Fuel.

When separate accounts are maintained, the Store Supplies account is debited with the cost of wrapping paper, twine and containers; the Office Supplies account, with the cost of stationery and other office supplies; the Postage account, with the expenditures for stamps; and the Fuel account with the cost of fuel purchased for heating purposes.

Recording Cost of Supplies Used. The cost of supplies used is not recorded at the time the supplies are used, but at the close of the fiscal period. The expense to be recorded at the close of the fiscal period is the difference between the inventory of supplies on hand at that time and the balance of the account in which the cost of the supplies is recorded.

When the four supply accounts referred to in the above paragraph are needed to record the supplies purchased, the adjustment is effected through a compound journal entry with four debits and four credits. The Office Supplies Used, Store Supplies Used, Postage Used, and Fuel Used accounts are debited and the Office Supplies, Store Supplies, Postage, and Fuel accounts are credited. The amount in each case is the difference between the inventory and the balance of the supply account to which it is applicable.

Illustrations. The Trial Balance in the illustration below was prepared from the ledger of Baird & Long, a partnership, at the close of the annual fiscal period, December 31. The debit balances of the Store Supplies, Office Supplies, Postage, and Fuel accounts show the total cost of supplies, stamps and fuel.

Each of these four account balances is an asset if the value of each kind of supplies on hand equals the balance of the account. If the balance of the supply account is more than the value of the supplies on hand, the cost of the supplies of each character used is the difference between the balance of the account and the inventory.

BAIRD & LONG
TRIAL BALANCE, December 31, 19

1	Cash	6450 88	
3	Notes Receivable	2965 40	
5	Accounts Receivable	6251 25	
7	Merchandise Inventory	13247 20	
11	Store Supplies	198 05	
13	Office Supplies	78 25	
15	Postage	178 50	
17	Fuel	136 25	
19	Prepaid Insurance	248 90	
25	Delivery Equipment	2400 —	
26	Dep. Res. for Del. Equip.		550 —
27	Store Equipment	1200 —	
28	Dep. Res. for Store Equip.		110 —
29	Office Equipment	2000 —	
30	Dep. Res. for Office Equip.		169 28
41	Notes Payable		2400 —
43	Accounts Payable		1841 65
51	L. E. Baird, Capital		10149 90
53	W. C. Long, Capital		10149 90
61	Sales		55425 51
63	Sales Ret. and Allow.	341 80	
65	Purchases	28417 60	
67	Sales Salaries	3650 —	
69	Rent	4400 —	
71	Office Salaries	3480 —	
72	Partners' Salaries	5000 —	
73	Misc. General Expense	121 16	
75	Interest Expense	36 —	
		80796 24	80796 24

Inventory of supplies on hand December 31 is as follows: store supplies, $53.45; office supplies, $21.50; postage, $79.60; fuel, $42.50.

The illustration at the left show the entries in the general journal to record the expense because of the supplies used. In each case the debit to the expense account is the difference between the inventory and the balance of the account. When this entry is posted, the expenses will be recorded in appropriate accounts and the balance of each supply account will be the same as the inventory.

December 31, 19

Store Supplies Used	139 60	
Office Supplies Used	56 75	
Postage Used	98 90	
Fuel Used	93 75	
Store Supplies		139 60
Office Supplies		56 75
Postage		98 90
Fuel		93 75
To record the cost of supplies, postage and fuel used.		

Exercise 117, Supplies

(ORAL OR WRITTEN)

1. "February 5. Purchased from the Center Creek Coal Company, on credit, five tons of coal at $7.25 per ton for use in heating the office and store."

(a) In what book of original entry is this transaction recorded? What account is (b) debited? (c) credited?

2. "February 28. The value of the coal on hand was $12.50." (a) What is the value of the coal consumed if the entry of February 5 (Question 1) records all the coal purchased and none was on hand February 1? (b) What entry in the general journal will be required to adjust the account debited for the coal purchased February 28?

3. "June 3. Purchased from the Crowe Supply Company, for cash, office supplies, $26.80, and store supplies, $39.75." (a) In what book of original entry will this transaction be recorded? (b) What accounts are debited? (c) What is the amount of each debit? (d) What account is credited?

4. At the close of the monthly fiscal period, June 30, the supplies on hand were office supplies, $18.40, store supplies, $12.25. (a) What entry will be required to record the cost of the supplies used if the entry of June 3 (Question 3) records all supplies purchased and none were on hand June 1? (b) In what book of original entry will the entry be made? (c) What is the balance of each of the four accounts after this entry is posted?

5. The debit balance of the Fuel account at the close of the fiscal period is $104.50. The inventory of fuel is $42.50. What entry is required to record the expense?

INSURANCE

Insurance. The protection against loss because of destruction by fire or other natural causes is referred to as insurance. This protection is provided by insurance companies. The contract in which the insurance company agrees to reimburse the owner of the property for loss is referred to as the *policy* and the amount the owner pays the insurance company for this protection, as the *premium*. The premium is usually stated as a rate per thousand dollars of insurance for one year. This rate is fixed by a board of underwriters composed of representatives of insurance companies, and is based on the nature of the property and its location.

Annual and Term Insurance. When the rate applies to insurance for twelve months, it is known as the *annual rate* and the insurance, as annual insurance; when the rate applies to insurance for a longer period, it is known as the *term rate* and the insurance, as *term insurance*. Merchandise in stock and other property the value of which is constantly changing, may ordinarily be insured for not more than one year. Buildings, furniture and other property the value of which is less likely to change may be insured for one year or for a longer term, such as three or five years. The term rate per year is somewhat cheaper than the annual rate since the insurance company is saved the expense of reinsuring the property each year.

A policy for $5,000.00 issued on merchandise with an annual rate of $19.75 per thousand requires the payment of $98.75 premium at the time the policy is issued. A policy for $10,000.00 issued on a building with a term

rate of $20.00 for five years insurance requires the payment of $200.00 at the time the policy is issued. The insurance on merchandise will expire twelve months from the date of the policy; the insurance on the building will expire five years from the date of the policy.

Canceled Insurance. The insured has the privilege of canceling the insurance policy at any time before its expiration. Should the insured elect to cancel the policy, he will receive a refund from the insurance company for that part of the premium which has not expired. When insurance is canceled, the expired portion is assigned a higher rate than that stated in the policy, hence, the refund received from the insurance company will be less than the book value of the unexpired insurance. The Board of Underwriters fixes the short time rate applicable to expired insurance when a policy is canceled.

Insurance Policy Register. The purpose of this register is to provide a record of each insurance policy and the expired insurance. The ruling provides for recording all the needed facts regarding each policy on one horizontal line. The desired information contained on each policy is recorded at the time the policy is received; the monthly expiration of the insurance premium is recorded at the end of each month. When the fiscal periods are more than one month in length, a column is provided for each fiscal period and the expired insurance for the period recorded in this column.

The insurance policy register at the bottom of pages 316 and 317 contains a record of the seven insurance policies issued to Baird & Long during the annual fiscal period. The balance of the Prepaid Insurance account on the Trial Balance on page 314 is the total premium less the expired insurance recorded at the close of the eleven monthly fiscal periods ending November 30.

Prepaid and Expired Insurance. Prepaid insurance refers to the asset value of the insurance premium at the time it is paid; the word "Prepaid" indicates payment of the premium in advance. When cash is paid for the insurance premium, the transaction results in a decrease in the asset cash, and an increase in the asset prepaid insurance.

INSURANCE POLICY REGISTER

DATE OF POLICY	No.	NAME OF COMPANY	PROPERTY INSURED	AMOUNT	TIME	PREMIUM
19 Jan. 2	63247	United States Fire Insurance Co.	Merchandise	10000 —	1 yr.	107 —
Jan. 2	41218	Alliance Insurance Co.	Office Equipment	4000 —	3 yrs.	118 80
Feb. 1	28710	Caledonian American Insurance Co.	Store Equipment	2000 —	3 yrs.	59 40
Mar. 1	94762	Automobile Mutual Co.	Delivery Equipment	3000 —	1 yr.	273 —
Apr. 1	63291	Globe Insurance Co.	Merchandise	2500 —	1 yr.	25 50
May 1	71335	United States Fire Insurance Co.	Merchandise	5000 —	1 yr.	51 —
Oct. 1	54226	United States Fire Insurance Co.	Merchandise	3000 —	1 yr.	30 60

Illustration 61, Insurance Policy Register

At the close of each fiscal period, the decrease in the asset, prepaid insurance, will be the difference between the asset value of insurance at that time and the total amount of prepaid insurance. This decrease in the asset, prepaid insurance, results in an expense usually referred to as *expired insurance.*

Adjustment for Expired Insurance. The expense because of expired insurance is not recorded daily, but in one amount at the close of the fiscal period. The amount of the expired insurance is ascertained from the insurance policy register, or the insurance policies if a register is not maintained. The amount of the expired insurance for each monthly fiscal period is the total of the column for the month in the insurance policy register. Thus, in Illustration 61 the expired insurance for the January fiscal period is $11.80.

The amount of expired insurance may be recorded in one account with *Expired Insurance* or in separate accounts each with a title descriptive of the property insured. Thus, the title of the expense account in which expired insurance is recorded may be *Expired Insurance* or the titles *Expired Insurance on Merchandise, Expired Insurance on Store Equipment, Expired Insurance on Delivery Equipment, Expired Insurance on Office Equipment.* When the expense incident to expired insurance is recorded in separate accounts, the amount of each expense is determined from the description of the property as given in the "Property Insured" column.

Recording Expired Insurance. The entry in the illustration at the right shows the method of recording the expired insurance applicable to the Prepaid Insurance account on the Trial Balance, page 314. The information for each debit entry is obtained from the "Dec." and "Property Insured" columns in the insurance policy register on pages 316 and 317. Thus, the

December 31, 19

Expired Ins. on Mdse.		15	30	
Expired Ins. on Store Equip.		1	65	
Expired Ins. on Del. Equip.		22	75	
Expired Ins. on Office Equip.		3	30	
Prepaid Insurance				43 —
To adjust the Prepaid Insurance account.				

INSURANCE POLICY REGISTER

JAN	FEB.	MAR	APR.	MAY	JUNE	JULY	AUG	SEPT.	OCT.	NOV.	DEC.	EXPIRED		UNEXPIRED	
8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	102	—		
3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	39	60	79	20
	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	18	15	41	25
		22.75	22.75	22.75	22.75	22.75	22.75	22.75	22.75	22.75	22.75	227	50	455	50
			2.13	2.13	2.13	15.75	Cancelled July 31								
				4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	34	—	17	—
									2.55	2.55	2.55	7	65	22	95

Illustration 61, Insurance Policy Record

debit to the Expired Insurance on Merchandise account is the sum of the amounts entered on the first, sixth and seventh lines in the December column.

When this entry is posted, the balance of the Prepaid Insurance account will show the asset value of the prepaid insurance as recorded in the insurance policy register. The sum of the balances of the four accounts debited records the total expense because of expired insurance.

Exercise 118, Insurance

(ORAL OR WRITTEN)

1. Paid $125.00 for insurance. How will this transaction be recorded?

2. At the close of the fiscal period, the balance of the Prepaid Insurance account is $250.00; the expired insurance on merchandise is $41.50 and on fixed assets, $12.25. State the entry to record the expense.

3. Received check for $12.50 from the insurance company for premium on policy canceled; premium paid when this policy was issued for insurance on merchandise, $32.00. How will this transaction be recorded?

4. Balance of Prepaid Insurance account at the close of the fiscal period, $486.50, asset value of prepaid insurance, $221.00. What entry is required to record the expense if the expired insurance is applicable to merchandise, $118.25, fixed assets, $45.00, and delivery equipment, $102.25?

5. Received a bill from the Sun Insurance Co. for premium on policies, $216.50, terms 30 days. How is this transaction recorded?

PREPAID INTEREST ON NOTES PAYABLE

Prepaid Interest on Notes Payable. When the interest on a note payable is paid in advance, this payment is the interest for the use of the money for the full time of the note. If the maturity of the note is in a subsequent fiscal period, the amount debited to the Interest Expense account for the interest paid will be in excess of the interest expense for the fiscal period because the money has not been used for the full time of the loan. The expense for a current fiscal period should include only that applicable to the period.

When a part of the interest expense incurred during a fiscal period is applicable to a subsequent fiscal period, the amount not consumed at the close of the period is an asset, referred to as *prepaid interest on notes payable*. The asset value of prepaid interest on notes payable decreases the interest expense for the period by the amount of that asset value. This effect on the assets and expenses is recorded as a debit to an account with Prepaid Interest on Notes Payable and a credit to the Interest Expense account.

The balance of the Notes Payable account on the Trial Balance, page 314, is a 30-day non-interest-bearing note discounted at the bank December 16, discount rate, 8%. This means that the proceeds of the note was $2,384.00, the $16.00 deduction being the interest for 30 days. December 31 this money

had been used only 15 days, hence it is necessary to record the $8.00 paid for the use of the money for the 15 days in January as an asset.

The entry at the right shows the method of recording the increase in assets and the decrease in expenses. The debit to the Prepaid Interest on Notes Payable account records the asset value of the interest paid in advance and the credit to the Interest Expense account reduces the interest expense for the fiscal period.

December 31, 19

Prepaid Interest on Notes Pay.		8—	
Interest Expense			8—
To record the interest prepaid on Note No. 39.			

Adjustment of Prepaid Interest on Notes Payable Account. After the adjusting and closing entries have been posted, the Prepaid Interest on Notes Payable account will show a debit balance because it is an asset. It is an asset only at the close of the fiscal period when it is recorded, and a part or all of this will become an expense before the close of the next fiscal period. For this reason it is customary to transfer the balance of the Prepaid Interest on Notes Payable account to the Interest Expense account on the first day of the fiscal period following the closing.

The entry to make the transfer suggested in the preceding paragraph is made in the general journal. The Interest Expense account is debited for the balance of the Prepaid Interest on Notes Payable account and the Prepaid Interest on Notes Payable account is credited for the same amount. When this entry is posted, the amount taken out of the interest expense at the close of the preceding fiscal period will have been transferred to the Interest Expense account and the asset account will be in balance.

The entry in the illustration at the left shows the method of adjusting the Prepaid Interest account on the ledger of Baird & Long at the beginning of the next fiscal period, January 2. The Interest Expense account is debited to transfer the interest expense back to this account and the Prepaid Interest on Notes Payable account is credited in order to have this asset account in balance. When this entry is posted, the interest expense will be in the Interest Expense account where it was before the adjusting entry was made. At the close of the current fiscal period, the prepaid interest will be ascertained and recorded in the same manner as in the preceding period.

January 2, 19

Interest Expense		8—	
Prepaid Int. on Notes Pay.			8—
To adjust the Prepaid Interest on Notest Payable account.			

Deferred Credits to Income refer to income recorded during the fiscal period which will not be earned until a subsequent fiscal period. Tuition collected in advance by a school and subscriptions collected in advance by a magazine publisher are examples of deferred credits to income.

When income is collected in advance, it is necessary at the close of each fiscal period to regard the income which has not yet been earned as a liability. The title of this liability is *Deferred Credits to Income.* The entry to record the liability requires a debit to the account in which the income is recorded and a credit to the liability account.

The amount of the liability as recorded in the Deferred Credits to Income account is shown as a liability on the Balance Sheet. At the beginning of the next fiscal period the account is adjusted in the same manner as the Prepaid Interest on Notes Payable account. The Deferred Credits to Income account is debited for its balance and the appropriate income account credited.

SUMMARY

Deferred Charges are assets which will be consumed by their use in the operation of the business. The expense because of the consumption or expiration of deferred assets may be recorded in one expense account or a group of expense accounts with descriptive titles. The descriptive title of the account does not change its meaning or purpose but only permits a more complete classification as will be explained in a subsequent chapter.

The Prepaid Interest on Notes Payable Account is a record of the asset value of the prepaid interest at the close of the fiscal period. This account is *debited* at the close of the fiscal period for the asset value of the interest paid in advance on notes, and *credited* at the beginning of the fiscal period with the same amount. The debit balance is a deferred asset at the time the amount is recorded; the account is in balance during the fiscal period.

Exercise 119, Deferred Charges and Credits

(ORAL OR WRITTEN)

1. "Gave the Union Insurance Company a check for $42.50 in payment for insurance premium on store fixtures." (a) In what journal is this transaction recorded? What account is (b) debited? (c) credited?

2. At the close of the fiscal period June 30, the prepaid interest on notes payable is $22.50. (a) What entry is required to record this deferred asset? (b) What effect will it have on the debit balance ($114.50) of the Interest Expense account? (c) What entry is required July 1 to record this asset as an expense applicable to the fiscal period beginning at that time?

3. At the close of the fiscal period, the debit balance of the Office Supplies account is $115.60; Store Supplies, $112.90; and Fuel, $200.00. The inventories are: office supplies, $62.50; store supplies, $41.90; fuel, $50.00. What entry is required to record the expense?

4. The Dexter School collects tuition for each term at the beginning of the term. At the close of the annual fiscal period, December 31, the unearned tuition, because the term does not end until February 1, is $1,250.00.

(a) What entry is required to record this liability to the students who have paid their tuition in advance? (b) What effect will this entry have on the credit balance of the Tuition Earned account, $26,500.00? (c) What entry is required January 2 to record this liability as income for the fiscal period beginning on that date?

5. "Received from the Traders Insurance Company a check for $6.75 in cancellation of a policy, the unexpired premium for which was $15.00." How will this transaction be recorded?

Exercise 120, Adjustments for Supplies, Insurance and Prepaid Interest

At the close of the annual fiscal period, December 31, the following account balances appear on the ledger of Dawson Bros.: Office Supplies, $204.11; Store Supplies, $321.50; Fuel, $387.50; Prepaid Insurance, $450.00. The inventories of supplies are: office supplies, $78.64; store supplies, $96.50; fuel, $52.35. The asset value of prepaid insurance is $120.40. The prepaid interest on notes payable is $42.50.

Instructions. Prepare the three journal entries necessary to record the increase in expense because of supplies used, insurance expired, and the decrease in expense because of the prepaid interest.

Exercise 121, Insurance Policy Register

The illustration below contains a record of the insurance premiums paid by Smith and Breen, a partnership, during the annual fiscal period.

INSURANCE POLICY REGISTER

DATE OF POLICY	POLICY No.	NAME OF COMPANY	PROPERTY INSURED	AMOUNT	TIME	PREMIUM
19						
Jan. 2	846205	United States Fire Insurance Co.	Merchandise	10000 —	8 Mo.	90 —
Jan. 2	485126	Automobile Mutual Co.	Delivery Truck	3000 —	35 Mo.	116 67
Jan. 2	517620	Alliance Insurance Co.	Office Equipment	2000 —	36 Mo.	90 —
Jan. 2	327518	Globe Insurance Co.	Merchandise	5000 —	12 Mo.	70 —
Jan. 2	684133	Caledonian American Insurance Co.	Store Equipment	4000 —	36 Mo.	180 —
Apr. 1	411811	Globe Insurance Co.	Merchandise	5000 —	12 Mo.	70 —
Sept. 1	989947	United States Fire Insurance Co.	Merchandise	10000 —	12 Mo.	135 —

Instructions: (1) Rule the right page of the Insurance Policy Register similar to the illustration on page 317 and record the expired insurance applicable to these policies in the same manner as in the illustration.

(2) Record the expired insurance at the end of the December fiscal period.

CHAPTER XXVII

FIXED ASSETS, RESERVES AND FIXED ASSET REGISTER

The method of recording equipment when purchased and the expense because of decrease in value through use has been explained in preceding chapters. The discussion in this chapter provides a review and information regarding (1) fixed asset accounts (2) fixed asset register (3) reserves applicable to fixed assets and accounts receivable.

Fixed Assets. Assets purchased for use in the business which will be of service for a number of fiscal periods are usually referred to as *equipment* or *fixed assets*. Equipment consists of shelving, display cases, automobile trucks, office desks, machines and assets of a similar type.

When the cost of an article is small and it may be necessary to replace it frequently, it is recorded as an expense at the time of purchase. The debits to the Equipment account usually include the cost of those articles which will not need to be replaced frequently. Thus, the cost of a desk is recorded as equipment while the cost of a waste basket is usually recorded as an expense.

Recording Fixed Assets. When equipment is purchased, the cost price may be debited to one account with *Equipment* or to separate accounts. When separate accounts are maintained, the title of each account should be descriptive of the equipment and its use.

The usual titles of the accounts for equipment in a mercantile business are *Store Equipment, Delivery Equipment* and *Office Equipment*. Store equipment includes all fixed assets in the store room; delivery equipment, automobile trucks; and office equipment, desks and office machines.

The titles suggested are not required. Thus, the cost of the fixed assets used in the store room may be recorded in an account with the title *Shelving and Display Cases* or *Storeroom Fixtures*. Fixed assets purchased for use in delivering goods may be recorded in an account with the title *Delivery Truck* or *Automobile Truck*. Fixed assets purchased for use in the office may be recorded in an account with the title *Office Furniture* or *Office Furniture and Furnishings*.

Depreciation. The decrease in the value of a fixed asset because of use, lapse of time or other causes is an expense referred to as *depreciation*. The amount of the depreciation on a fixed asset cannot be known definitely until the fixed asset is sold, exchanged or discarded. When a fixed asset is sold or exchanged, the depreciation is the difference between the cost and the sale or exchange value. When a fixed asset is discarded because it is of no further service, the depreciation is the full cost.

Depreciation is an expense because it is a decrease in one asset without a corresponding increase in another asset or a corresponding decrease in lia-

bilities. To record the depreciation expense for a fiscal period, it is necessary to estimate the depreciation at the close of the fiscal period.

There are a number of methods used to ascertain the estimated depreciation. The usual plan is to base the amount on the estimated number of years the asset will be of service. Thus, if it is estimated that a fixed asset will be of service for four years with no exchange or sale value at the end of that time, the depreciation for each year will be 25% of its cost.

Scrap Value. The nature of some fixed assets is such that they will have an exchange or trade-in value after they have been used in the operations of the business for a period of time; this value is referred to as *scrap* or *trade-in value*. The estimated yearly depreciation of a fixed asset with a trade-in value is found by subtracting the estimated scrap value from the cost and dividing that balance by the number of years the asset is estimated to be of use. The yearly depreciation is usually expressed as a per cent of the cost. Thus, if a typewriter which cost \$125.00 has a trade-in value of \$25.00 at the end of the fourth year, the depreciation for each year is \$25.00 (\$125.00 − \$25.00 = \$100.00 ÷ 4 = \$25.00), which is 20% of the cost.

The foregoing illustration serves to show one method of ascertaining the estimated depreciation applicable to fixed assets. The method of ascertaining the depreciation does not affect the method of recording the expense because of depreciation. Recording depreciation is recording the estimated decrease in the value of an asset and the estimated expense because of this decrease.

Fixed Asset Register. The purpose of this register is to provide a record of each fixed asset so that the cost value, recorded depreciation, and present value, usually referred to as book value, may be known. This information is needed when the fixed asset is exchanged, sold, or has been fully depreciated. When a number of fixed assets of the same kind are recorded in a fixed asset account with an appropriate title, it is difficult to determine the book value at the time of the sale or exchange and it is possible to over-depreciate the fixed asset unless a fixed asset register is maintained.

The desired information regarding each asset is recorded in the fixed asset register at the time it is purchased; this includes (a) the date of purchase, (b) identification number, (c) description of property, (d) purchase price, (e) estimated scrap value, (f) number of years it is estimated the fixed asset may be used, and (g) the annual amount of depreciation. Columns are provided for the depreciation to be recorded at the close of each fiscal period. The amount of the depreciation is recorded in the appropriate column at the close of the fiscal period.

Illustration 62, page 324, contains a record of the eight articles of office equipment purchased by Baird & Long (Trial Balance, page 314) during the first annual fiscal period. The depreciation applicable to each asset as recorded in the first eleven columns was recorded at the close of each monthly fiscal period; the depreciation entered in the December column is yet to be recorded.

FIXED ASSET REGISTER

DATE	No.	DESCRIPTION	COST	SCRAP VALUE	No OF YEARS	RATE	DEPRECIATION YEAR	DEPRECIATION AMOUNT
19 Jan. 2	301	D. Typewriter 21769-5	125 —	25 —	4	20%		
2	302	Typewriter Desk	75 —		10	10%		
2	303	Typewriter Chair	30 —		5	20%		
2	304	Office Desk	80 —		10	10%		
2	305	Office Chair	25 —		5	20%		
April 1	306	N. Adding Machine	300 —	50 —	5	16⅔%		
July 1	307	W. Bookkeeping Machine	1250 —	250 —	5	16%		
Sept. 1	308	B. Duplicating Machine	115 —		5	20%		

Illustration 62, Fixed Asset Register (Left Page)

Separate pages in the register are used for the different types of fixed assets. This avoids the necessity of analyzing the entries in each column for depreciation when recording the expense. The identification number is attached to the fixed asset with a tack or a tag; this facilitates the preparation of an inventory of fixed assets.

The book value of each fixed asset is the difference between the depreciation and the cost recorded on the horizontal line with it. The depreciation to be recorded at the close of each fiscal period is the sum of the amounts entered in the column for the fiscal period. Thus, the total depreciation to be recorded at the end of the December fiscal period is $27.26.

Recording Depreciation. It is customary to record the estimated expense because of depreciation at the close of each fiscal period. When the cost of all fixed assets is recorded in one account, the depreciation expense is recorded as a debit to the *Depreciation Expense* account and the decrease in the value of the asset as a credit to the *Depreciation Reserve* account.

When the cost of the fixed assets is recorded in more than one account, an expense account and a reserve account are kept for each class of fixed assets. This provides for a classification of expenses (page 349) and the book value of each class of assets. Thus, when separate fixed asset accounts are maintained with Store Equipment, Delivery Equipment and Office Equipment, the titles of the accounts required to record the estimated depreciation and resulting expense at the close of each fiscal period are as follows:

Depreciation on Store Equipment	Dep. Reserve for Store Equipment
Depreciation on Delivery Equipment	Dep. Reserve for Delivery Equip.
Depreciation on Office Equipment	Dep. Reserve for Office Equipment

Each account title at the left is debited for the amount of the estimated depreciation and each account at the right is credited for the same amount.

The depreciation applicable to the fixed assets on the Trial Balance page 314, at the close of the monthly fiscal period, December 31, is delivery equipment $50.00, store equipment $10.00, and office equipment $27.26. The depre-

FIXED ASSET REGISTER

JAN.	FEB.	MAR.	APR.	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.	CARRIED FORWARD	DISPOSITION
2.08	2.08	2.08	2.08	2.08	2.08	2.08	2.08	2.08	2.08	2.08	2.12	25 —	
.62	.62	.62	.62	.62	.62	.62	.62	.62	.62	.62	.68	7 50	
.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	6 —	
.66	.66	.66	.66	.66	.66	.66	.66	.66	.66	.66	.74	8 —	
.41	.41	.41	.41	.41	.41	.41	.41	.41	.41	.41	.49	5 —	
			4.16	4.16	4.16	4.16	4.16	4.16	4.16	4.16	4.16	37 44	
						16.66	16.66	16.66	16.66	16.66	16.66	99 96	
4.27	4.27	4.27	8.43	8.43	8.43	25.09	25.09	1.91 27.60	1.91 27.00	1.91 27.26	1.91 27.26	7 96	64 54

Illustration 62, Fixed Asset Register (Right Page)

ciation for office equipment, $27.26, is the sum of the amounts entered in the December column of the fixed asset register illustrated. The pages of the fixed asset register containing a record of the delivery equipment and store equipment are not illustrated; the figures given were obtained from the December column on each of these pages.

The entries in the illustration at the left show the method of recording the depreciation expense December 31. The expense incident to the use of each class of property is recorded as a separate expense and separate depreciation reserve accounts are provided.

December 31, 19				
Depreciation on Office Equip..	27	26		
Depreciation on Store Equip...	10	—		
Depreciation on Delivery Eq..	50	—		
Depr. Res. for Office Eq....			27	26
Depr. Res. for Store Eq.....			10	—
Depr. Res. for Delvy. Eq...			50	—
To record the depreciation on office, store and delivery equipment.				

When these entries are posted, the additional reserve set up at the close of the December fiscal period will be recorded in the three reserve accounts and the expense because of this decrease in the value of the fixed assets recorded in the three expense accounts. When the income and expenses are summarized in the Trading, Profit and Loss Summary account, the three expense accounts will be in balance and will remain in balance until the close of the next fiscal period.

Expenses in Connection with Fixed Assets. The ownership of fixed assets results in four types of expenses, (a) depreciation, (b) insurance, (c) property taxes, and (d) repairs. The method of recording the expenses because of depreciation and expired insurance is explained in the preceding discussion and illustrations. The expense because of property taxes is usually debited to an account with Property Taxes at the time the taxes are paid, and the expense because of repairs, to an account with Repairs on Fixed Assets. When a large amount is invested in fixed assets of each class, the property taxes and repairs expense applicable to each class may be recorded

in separate accounts with titles descriptive of the expense recorded in each. When fixed assets are purchased on the deferred payment plan, the interest on these payments is an expense applicable to the maintenance of the assets.

Capital and Revenue Expenditures. These terms are used to distinguish between the cost of a fixed asset and the expense required to maintain its usefulness. Thus, the purchase of a delivery truck is a *capital* expenditure and the purchase of a new tire or part to replace an old one, a *revenue* expenditure. The purchase of a new body for the truck to make it more serviceable is a capital expenditure because it increases the cost of the truck.

It is necessary to distinguish between capital and revenue expenditures because the former are recorded as fixed assets which are depreciated at the close of each fiscal period and the latter as expenses all of which are applicable to the fiscal period in which the expenses are incurred.

Exercise 122, Purchase and Depreciation of Fixed Assets

(ORAL OR WRITTEN)

The following questions are based on the three accounts with equipment discussed in this chapter with titles the same as those used in the illustrations.

1. Paid cash, $125.00, for a desk. How will this transaction be recorded?
2. Purchased a delivery truck for $1,000.00. Paid for this with cash $400.00 and two notes for $300.00 each, due in 60 and 90 days respectively. How will this transaction be recorded?
3. Paid $65.00 for a display case for use in the store. How will this transaction be recorded?
4. Purchased from the Day Desk Company on credit one office desk, $105.00. How will this transaction be recorded?
5. Paid $50.00 for repairs on delivery truck. How will this transaction be recorded?
6. At the close of the fiscal period, the estimated depreciation on office equipment is $32.50, store equipment $18.25, and delivery equipment $125.00. How will this expense be recorded?
7. Designate whether transactions 1–5 above are capital or revenue expenditures by writing "C" or "R" after the number.

Disposition of Fixed Assets. When a fixed asset has served its purpose, it will be exchanged, sold or discarded. When disposed of in the manner suggested, the book value of the fixed asset is removed from the ledger through an entry in the general journal in which the fixed asset account is credited with the cost and the depreciation account debited with the recorded depreciation applicable to the fixed asset. The book value is ascertained from the fixed asset register. The excess of actual depreciation over recorded depreciation indicates an expense not yet recorded. This expense, which is the difference between the book value of the fixed asset and the sale price, is usually debited to an account with the title *Loss on Exchange of Fixed Assets*.

Exchange of a Fixed Asset. The journal entry at the left and the cash book entry below record the purchase of a new motor truck for $1,000.00 with a check for $675.00 and an exchange allowance of $325.00 on the used truck, cost value $750.00, book value $400.00. The fixed asset account is debited with the cost of the new truck and credited with the cost of the old one. The Depreciation Reserve account is debited for the depreciation applicable to the old truck and the Cash account credited for the check. The Loss on Exchange of Fixed Assets account is debited for the difference between the recorded depreciation, $350.00, and the actual depreciation, $425.00. The cash is entered in the cash book and check marks used to avoid double posting.

	January 2, 19		Page 18	
	Delivery Equipment	1000 —		
	Dep. Res. for Delivery Equip.	350 —		
	Loss on Exchange of Fixed Asset	75 —		
	Delivery Equipment		750 —	
√	Cash		675 —	
	Purchased motor truck for $1000.00; paid for it with check, $675.00 and old truck, register No. 201.			

CASH

19					Payments			
Jan.	2	√	Delivery Equipment	Truck Exchanged J18	675	—		

Sale of Fixed Assets. When a fixed asset is sold, its book value is removed from the ledger through an entry in the general journal. The fixed asset account is credited for the cost, the depreciation reserve account debited for the recorded depreciation, the Loss on Exchange of Fixed Assets account debited for the difference between the recorded and actual depreciation, and the Cash account debited for the cash received. The cash is recorded in the cash book as in the illustration above.

If the exchange or sale value of a fixed asset is more than the book value, the difference between the amount received in the sale or exchange and the book value is a profit. This profit is recorded as a credit to an account with *Profit on Exchange of Fixed Assets.*

Discarded Fixed Assets. When a fixed asset is discarded, its book value is removed from the ledger through an entry in the general journal. The fixed asset account is credited for the cost, the depreciation reserve account debited for the recorded depreciation, and the Loss on Exchange of Fixed Assets account debited for the difference between the recorded and actual depreciation.

Fully Depreciated Fixed Assets. When the amount of the depreciation recorded on a line with a fixed asset in the fixed asset register equals the cost of the fixed asset, the asset has been fully depreciated. Thereafter no depreciation applicable to this asset will be recorded. The cost value of the fixed asset and the recorded depreciation applicable to it may be allowed to remain in the fixed asset and reserve for depreciation accounts since the deduction of the reserve from the fixed asset account on the Balance Sheet will permit this statement to show the book value of fixed assets which have not been fully depreciated.

Exercise 123, Disposition of Fixed Assets

(ORAL OR WRITTEN)

1. Discarded parcel post scales, cost $150.00, present book value $30.00. What entry is required to record this disposition of a fixed asset?

2. A duplicating machine which cost $135.00 and has been depreciated at the rate of 10% for four years, was exchanged for a new machine which cost $150.00; exchange allowance $75.00, cash paid $75.00. What entries are required in the general journal and cash book to record this exchange?

3. January 2. Paid $125.00 in cash for a typewriter with an agreed exchange value of $25.00 at the end of the third year. (a) State the entries in journal form to record (a) the purchase of this typewriter; (b) the depreciation at the close of each of the three annual fiscal periods, December 31; (c) the purchase January 2 of the fourth year of a new typewriter, cost $125.00; paid cash less the agreed exchange on the old typewriter.

4. Received $200.00 in cash for a delivery truck used for delivering goods, cost value of the truck, $800.00; book value, $300.00. What entries are required in the general journal and cash book to record this sale?

BAD DEBTS

Bad Debts. No matter how careful a firm may be in extending credit it will not be possible to collect from all charge customers. Failure to collect from a charge customer results in a *bad debt*. A bad debt when recorded as such results in a decrease in the asset accounts receivable and a corresponding decrease in proprietorship; this decrease in proprietorship is referred to as *loss on bad debts*. When a loss on bad debts is recorded, the account with the customer is said to be *charged off*.

Reserve for Bad Debts. It is usually not possible to determine that an account with a charge customer is worthless until several months or sometimes several years have elapsed. In view of this fact, it is customary to estimate at the close of each fiscal period the probable loss on account of bad debts resulting from charge sales during the period and to record this expense. This estimate is usually based on a per cent of the sales or of the charge sales for the period. The rate will be determined by comparing the loss on bad debts in various periods with the sales during these periods.

The entry in the illustration at the right appears in the journal of Baird & Long. The purpose of this entry is to record the estimated loss on bad debts of ¼ of 1% of the charge sales, $40,000.00. Loss on Bad Debts is debited because the purpose of the entry is to record the expense (decrease in proprietorship) which may result from a failure to collect from charge customers. The Reserve for Bad Debts account is credited to record the estimated decrease in the value of the accounts receivable because of failure to collect

December 31, 19			
Loss on Bad Debts		100 —	
Reserve for Bad Debts			100 —
To record the estimated loss on bad debts.			

from charge customers. This entry is made in the general journal and only at the close of the fiscal period.

The balance of the Accounts Receivable account is shown on the Balance Sheet as an asset and the Reserve for Bad Debts as a deduction in the same manner as Reserve for Depreciation is deducted from the balance of the fixed asset account to which it applies. The decrease in the asset accounts receivable because of the credit to the Reserve for Bad Debts account is shown on the Balance Sheet as in the illustration at the left. The estimated amount to be collected from charge customers is the difference between the balance of the Accounts Receivable account and the Reserve for Bad Debts account.

Accounts Receivable	6251.25	
Less Reserve for Bad Debts	100.00	6151 25

Recording a Bad Debt. When it is decided that the account with a charge customer is uncollectible, the account is removed from the ledger through an entry in the general journal. The Reserve for Bad Debts account is debited and the account with the charge customer credited for the amount of his indebtedness.

The entry in the illustration at the right appears in the journal of Baird & Long, the firm referred to in connection with the illustration at the bottom of page 328. Its purpose is to record a loss on bad debts determined after the reserve was recorded December 31. When this entry is posted, the account with A. H. Gaines is in balance. It is then filed with uncollectible accounts.

March 16, 19			
Reserve for Bad Debts		18 64	
A. H. Gaines			18 64
Account uncollectible			

When a Reserve for Bad Debts account is not maintained, the expense because of "accounts receivable charged off" is recorded as a debit to the Loss on Bad Debts account.

Collection of a Bad Debt. When cash is received from a charge customer whose account has been declared worthless and recorded as a bad debt, the transaction results in an increase in the asset cash and a corresponding increase in income. This income is usually referred to as *Bad Debts Collected.* This income should not be recorded as a credit to the Reserve for Bad Debts account because the purpose of this account is to provide a reserve and not to contain a record of income.

SUMMARY

Fixed Assets are assets purchased for use in the business which will be of service for a number of fiscal periods. The ownership of fixed assets requires three accounts to record (a) cost, (b) the depreciation, and (c) the expense because of depreciation; these accounts are summarized on page 150.

The Fixed Asset Register provides detailed information regarding each fixed asset. It includes (a) the purchase price, (b) the scrap value, (c) the

book value, and (d) the date of disposition. An identification number is given each fixed asset.

The Depreciation on a Fixed Asset is not known until it is sold, exchanged, or discarded. The estimated depreciation is recorded at the close of each fiscal period. When the actual depreciation is known, the difference between the estimated, which has been recorded, and the actual is recorded as an expense if the depreciation is more than estimated, and as a profit if less. The information recorded in the fixed asset register permits an exact adjustment of this profit or loss at the time the actual depreciation is known.

The Reserve for Bad Debts Account contains a record of the estimated deduction from accounts receivable because of possible failure to collect from charge customers. This account is *credited* at the close of each fiscal period for the estimated amount of loss, and *debited* during the fiscal period for losses through the failure to collect from charge customers at the time the losses are determined in a subsequent fiscal period. The *credit* balance is the bad debts reserve and shown on the Balance Sheet as a deduction from the Accounts Receivable account.

The Loss on Bad Debts Account is a record of the increases in losses (decreases in proprietorship) because of failure to collect from charge customers. This account is *debited* for the actual losses as they occur or the estimated losses at the close of each fiscal period. The *debit* balance is an expense and closed into the Profit and Loss Summary account.

The Bad Debts Collected Account is a record of the increases in income because of bad debts charged off and later collected. This account is *credited* for the amount of each collection from charge customers whose accounts have been charged off. The *credit* balance is an income and closed into the Trading, Profit and Loss Summary account.

Exercise 124, Bad Debts

(ORAL OR WRITTEN)

1. "Set up a reserve of ½ of 1% of sales, $21,500.00; to provide for loss on bad debts." State the entry to record this expense and reserve.

2. "Charge off account with C. M. Stone, balance $35.18." The sentence in quotations is the instructions given July 1 to the bookkeeper for O. J. White & Son. State the entry required in the general journal to record this loss if a Reserve for Bad Debts account is maintained.

3. "Charge off the account with A. B. Davis, balance $26.50." State the entry to record the decrease in assets and increase in expense if no reserve for bad debts has been set up.

4. May 16. Sold B. B. Downey merchandise per sale No. 1641, $28.65. State the entry in journal form to record the effect on assets and income.

5. December 31 of the year in which the sale to B. B. Downey (Question 4) was made, it was decided to charge the account off because no collections had been made from him and his address was unknown. State the entry in jour-

nal form to record this transaction assuming that a Reserve for Bad Debts account is maintained.

6. May 16, two years later, a check was received from B. B. Downey (referred to in the two preceding questions) for $28.65. State the entry in journal form to record this increase in assets and income.

7. At the close of the fiscal period, June 30, L. Robbins & Son, retail merchants, requested the bookkeeper to set up a reserve for doubtful accounts for one-half of one per cent of the total sales, $37,642.95. State the entry to record this decrease in assets and increase in expenses.

Exercise 125, Fixed Asset Register

The illustration below contains a record of the office equipment owned by Smith and Breen, January 1, and purchased during the annual fiscal period.

FIXED ASSET REGISTER

DATE	No.	DESCRIPTION	COST	SCRAP VALUE	No. OF YEAR	RATE	DEPRECIATION YEAR	DEPRECIATION AMOUNT
19 Jan. 1	61	Office Safe	250 -	50 -	10	8%	4½	90 -
1	62	Adding Machine	175 -	35 -	5	16%	2	56 -
1	63	Office Desk	125 -		20	5%	4½	28 13
1	64	Typewriter	125 -	25 -	4	20%	2¼	56 25
1	65	Typewriter Desk	90 -		10	10%	2¼	20 25
1	66	Bookkeeping Machine	1200 -	200 -	5	16⅔%	2½	500 -
Feb. 1	67	Duplicating Machine	150 -	25 -	5	16⅔%		
1	68	Calculating Machine	125 -	25 -	5	16%		

Instructions: (1) Rule the right page of the fixed asset register in the same form as the illustration on page 325 and enter the depreciation applicable to each asset for each monthly fiscal period.

(2) Record the depreciation for the December fiscal period.

Exercise 126, Working Sheet, Adjusting Entries, and Reports

Baird and Long desire a Balance Sheet and Profit and Loss Statement at the close of the fiscal period, December 31. You are to prepare these reports for the partners. Proceed as follows:

(1) Prepare a Working Sheet from the Trial Balance on page 314, merchandise inventory $9,669.76, and the information regarding adjustments, December 31, on pages 314, 317, 319, 325 and 328. Present proprietorship, $26,090.05; net profit, $5,790.25, to be divided equally between the partners.

(2) From the Balance Sheet columns on the Working Sheet prepare a Balance Sheet showing the assets, liabilities, and present proprietorship.

(3) From the Profit and Loss Statement columns prepare a Profit and Loss Statement showing the income, costs, expenses, and net profit.

(4) From the information contained in the Adjustments and Profit and Loss columns prepare the adjusting and closing entries.

CHAPTER XXVIII

ACCRUALS

The preceding discussion relates to recording changes in assets, liabilities and proprietorship because of completed transactions. The discussion in this chapter relates to the income earned and expenses incurred during a fiscal period but not recorded because the transactions have not yet been completed.

Accrued Income is income earned but which has not yet been recorded. The accrued interest on an interest-bearing note is an example of accrued income. The face value of the note is recorded as an asset in the Notes Receivable account. The amount collected at maturity is greater than the face of the note because the maker promises to pay interest. This agreement, which becomes effective at the maturity of the note, indicates that the asset value of the note is increasing in value daily.

A 30-day 6% interest-bearing note, face $3,000.00, dated December 16 is an asset of $3,000.50 at the close of business December 17, $3,001.00 at the close of business December 18, $3,001.50 December 19, and $3,002.00 December 20. It will continue to increase in value 50c each day until maturity January 15 at which time its value will be $3,015.00. The daily increase in the value of the asset because of the accrued interest is referred to as an *accrued asset,* and the income resulting from this accrued asset, as *accrued income.*

Accrued assets and the resulting accrued income are usually not given consideration except at the close of a fiscal period. The reason for this consideration is explained in the paragraphs which follow.

Recording Accrued Income. The income resulting from accrued assets is usually not recorded until the contract is completed. Applying this to the interest-bearing note discussed in a preceding paragraph, the entry to record cash received January 15, the maturity of the note, is:

				CASH	Receipts
19					
Jan.	15		Notes Receivable	Note dated December 16	3000—
	15		Interest Income	On above note	15—

It is not necessary to record the accrued asset because cash is collected and the increase in assets is recorded in the Cash account.

The plan of recording the accrued income at the maturity of the note is satisfactory when the date and maturity of the note both occur in the same fiscal period. When an interest-bearing note is dated in one fiscal period but does not mature until a subsequent fiscal period, it will be necessary to record

the increase in the asset accrued interest on notes receivable and the resulting increase in income at the close of the fiscal period. This is necessary that the Balance Sheet may show all the assets and the Profit and Loss Statement all the income earned during the period.

The asset value of an interest-bearing note at the close of the fiscal period is the face of the note plus interest from date of the note up to and including the last day of the fiscal period. The face of the note is recorded as an asset in the Notes Receivable account but the increased value because of accrued interest is not recorded. The entry to record accrued interest requires a debit to an account with the title *Accrued Interest on Notes Receivable* and a credit to the Interest Income account.

The 30-day 6% interest-bearing note for $3000.00 referred to in a previous paragraph is dated December 16, hence does not mature until January 15. If the fiscal year or monthly fiscal period ends December 31, the value of the asset accrued interest on notes receivable at that time is $7.50.

The entry in the illustration at the right shows the method of recording the accrued asset and the accrued income. The Accrued Interest on Notes Receivable account is debited to record the amount of the accrued asset. The Interest Income account is credited to record the income resulting from the use by others of money belonging to the business.

		December 31, 19			
		Accrued Interest on Notes Rec...	7	50	
		Interest Income.....			7 50
		To record the accrued interest on notes receivable.			

Collecting Accrued Interest. Recording the accrued income at the close of the fiscal period because of accrued assets makes it necessary to give consideration to this record at the maturity of the note in a subsequent fiscal period. Thus, when the $3000.00 note referred to is collected January 15, the amount of cash received is $3015.00, $3000.00 face of the note, and $15.00 interest. The interest for the first 15 days, however, has already been recorded as income, hence only the interest for the remaining 15 days is income for the fiscal period beginning January 2. For this reason, the entry to record the cash received is:

			CASH		Receipts		
19							
Jan.	15	Notes Receivable	Note dated Dec. 16	3000			
	15	Accrued Interest on Notes Rec.	On above note	7	50		
	15	Interest Income	On above note	7	50		

This transaction results in an increase in the asset cash $3015.00, a decrease in the asset notes receivable $3000.00, a decrease in the asset accrued interest on notes receivable $7.50, and an increase in the interest income of $7.50. When this entry is posted, the Accrued Interest on Notes Receivable account will be in balance and the interest earned during January recorded as a credit to the Interest Income account.

Accrued Income at the Close of the Fiscal Period. A debit balance of the Notes Receivable account at the close of a fiscal period always indicates that there may be accrued interest to record because of interest-bearing notes. The amount of interest to be recorded at that time is the accrued interest on all the interest-bearing notes from the date of each note up to and including the last day of the fiscal period. The entry to record all this interest requires a debit to the Accrued Interest on Notes Receivable account and a credit to the Interest Income account.

Exercise 127, Accrued Interest on Notes Receivable

(ORAL OR WRITTEN)

1. "Ninety days after date, May 16, I promise to pay to the order of A. L. Bader, $1,000.00 with interest at 6%." This quotation is from a note received by the payee and recorded as a note receivable on his ledger. (a) What is the accrued interest at the close of the fiscal period June 30? (b) What effect does this accrual have on the assets and proprietorship of the payee? (c) How is the increase in assets and increase in income recorded June 30?

2. The accounts in the illustration at the right are on the ledger of Clark & Co. at the close of the fiscal period, December 31, after the adjusting entries have been made. (a) What entry in the general journal was required to record the first debit entry and the third credit entry? (b) What is the purpose of this entry?

ACCRUED INTEREST ON NOTES RECEIVABLE

19 Dec.	31			J	17		38	17									

INTEREST INCOME

						19 Dec.	3		C	12			19	27			
							17		J	14			32	08			
							31		J	17			38	17			

3. January 20. Clark & Co. received from W. H. Boyle a check for $3,030.00 for a 60-day note due today for $3,000.00 and interest at 6%. (a) How much of this interest was earned by Clark & Co. in January? (b) How much prior to January? (c) What entry is required to record this transaction?

4. (a) What is the explanation of the journal entry in the illustration at the left? (b) If the business is operated on quarterly fiscal periods and this entry was made at the end of the third quarter, what is the date of the transaction? (c) What effect does this transaction have on the assets and proprietorship?

	Accrued Interest on Notes Rec.		12	15	
	Interest Income				12 15

5. "Net Profit $1726.55." The information in the quotation marks appears last on the Profit and Loss Statement prepared for Albert Dunning at the close of the fiscal period, June 30. Later it was discovered that $21.50 accrued interest on notes receivable had not been recorded. What is the correct net profit?

6. "Assets $9816.50 – Liabilities $1249.87 = Proprietorship $8566.63." This equation was prepared from the Balance Sheet of Albert Dunning referred to in the previous question. Restate this equation after the accrued interest has been recorded.

7. "January 15. Received check from C. J. Ladd for $2,010.00 in full for a 30-day 6% interest-bearing note dated December 16 and interest." How will this transaction be recorded if the preceding December 31 was the end of the fiscal period and the accrued interest on notes receivable was recorded at that time.

ACCRUED EXPENSES

Accrued Expense results from an increase in liabilities because of expenses incurred but not recorded. Accrued interest on notes payable, unpaid wages due employees, unpaid expense bills, and unpaid property taxes are examples of accrued expenses.

Accrued Interest on Notes Payable. The liability because of an interest-bearing note payable increases day by day until the note is paid. Thus, a 30-day 6% interest-bearing note payable for $6000.00 dated December 16 will be a liability of $6001.00 December 17, $6002.00 December 18, and $6003.00 December 19. In the same manner it will continue to increase $1.00 each day until maturity, January 15, at which time the amount of the liability is $6030.00. The daily increase in the amount of this liability because of the accrued interest is referred to as an *accrued liability;* the expense resulting from this accrued liability, as *accrued expense.*

The accrued liability and resulting increase in interest expense because of accrued interest on notes payable is usually not given consideration except at the close of a fiscal period.

Recording Accrued Interest Expense. The accrued expense resulting from accrued liabilities is usually not recorded until the contract is completed. Applying this to the interest-bearing note discussed in a preceding paragraph, the entry January 15 to record the cash paid at the maturity of the note is:

				CASH	Payments
19					
Jan.	15		Notes Payable	Note dated December 16	6000—
	15		Interest Expense	On above note	30—

The plan of recording interest expense at the maturity of the note is satisfactory when the date and maturity of the note both occur in the same fiscal period. When the interest-bearing note is dated in one fiscal period, but does not mature until a subsequent fiscal period, it will be necessary to record the increase in the liability accrued interest on notes payable and the resulting increase in expense at the close of the fiscal period. This is necessary that the Balance Sheet may show the correct proprietorship and the Profit and Loss Statement the net profit for the fiscal period.

The liability on an interest-bearing note at the close of the fiscal period is the face of the note plus interest from date of the note up to and including the last day of the fiscal period. The face of the note is recorded as a liability in the Notes Payable account but the increase in the liability because of accrued interest is not recorded. This increase in the liability requires an entry in the general journal in which an account with the title *Accrued Interest on Notes Payable* is credited and the Interest Expense account debited.

The 30-day 6% interest-bearing note for $6000.00 referred to in a previous paragraph, is dated December 16, hence does not mature until January 15. If the fiscal year or monthly fiscal period ends December 31, the value of the liability accrued interest on notes payable at that time is $15.00.

The entry in the illustration at the right shows the method of recording the accrued liability and the accrued expense. The Interest Expense account is debited to record the increase in expenses resulting from the use by the business of money belonging to others. The increase in the liability is recorded as a credit to the Accrued Interest on Notes Payable account.

		December 31, 19			
		Interest Expense	15 —		
		Accrued Int. on Notes Pay.			15 —
		To record the accrued interest on notes payable.			

Payment of Accrued Interest. Recording the accrued expense at the close of the fiscal period because of accrued liabilities makes it necessary to give consideration to this record at the maturity of the contract in a subsequent fiscal period. Thus, when the $6000.00 note referred to is paid January 15, the amount of cash paid is $6030.00, $6000.00 face of the note, and $30.00 interest. The interest for the first 15 days, however, has already been recorded as expense, hence only the interest for the remaining 15 days is expense for the fiscal period beginning January 2. For this reason, the entry to record the cash paid is:

			CASH		Payments
19					
Jan.	15	Notes Payable	Note dated Dec. 16		6000 —
	15	Accrued Interest on Notes Pay.	On above note		15 —
	15	Interest Expense	On above note		15 —

This transaction results in a decrease in the asset cash $6030.00, a decrease in the liability notes payable $6000.00, a decrease in the liability accrued interest on notes payable $15.00, and an increase in the expense of $15.00. When this entry is posted, the Accrued Interest on Notes Payable account will be in balance and the interest expense for January recorded as a debit to the Interest Expense account.

Accrued Salaries or Wages. When an employee receives his compensation weekly or monthly, the amount due him at the end of each business

day from the beginning of the contract is an accrued liability. Thus, if the owner of a business employs a bookkeeper to begin work Monday morning, December 29, at a salary of $21.00 per week payable Saturday night, the liability because of his salary on Monday night is $3.50, Tuesday night $7.00, Wednesday night $10.50, Thursday night, $14.00, Friday night $17.50, and Saturday night $21.00. Accrued wages and the resulting accrued expense are usually not given consideration except at the close of the fiscal period.

Recording Accrued Wages. The accrued expense resulting from accrued wages is usually not recorded until the contract is completed. Applying this to the salary of the bookkeeper discussed in a preceding paragraph, the entry January 3 to record the cash paid the employee is:

				CASH Payments
19 Jan.	3	Office Salaries	Salary of bookkeeper for 1 week	21—

The plan of recording accrued expense because of salaries at the maturity of a contract is satisfactory when the contract begins and ends in the same fiscal period. When the contract begins in one fiscal period, but does not end until a subsequent fiscal period, it will be necessary to record the increase in the liability accrued wages and the resulting increase in expense at the close of the fiscal period. Unless the expense resulting from the accrued liability is recorded at the close of the fiscal period, the Balance Sheet will not show the correct proprietorship and the Profit and Loss Statement will not show the correct net profit for the period.

The liability because of unpaid wages at the close of the fiscal period is the amount due employees at the close of the fiscal period for the number of days worked since the last pay day at the agreed wage per day. The accrued liability is recorded in an account with the title *Accrued Salaries* or *Accrued Wages* and the resulting increase in expense in the Salaries or Wages account.

The contract with the bookkeeper referred to in the previous paragraph begins Monday, December 29, and ends Saturday, January 3. If the fiscal year or monthly fiscal period ends December 31, the amount of the liability accrued wages at that time is $10.50, three days at $3.50 per day.

The entry in the illustration at the right shows the method of recording the accrued liability and the accrued expense. The Office Salaries account is debited because this account is debited for all salaries paid office employees on pay day. The Accrued Salaries account is credited to record the increase in the liability because the salaries have not been paid.

December 31, 19

Office Salaries	10 50		
Accrued Salaries			10 50
To record the accrued wages due bookkeeper.			

Payment of Accrued Salaries. Recording the accrued office salaries at the close of the fiscal period because of the accrued liabilities makes it necessary to give consideration to this record at the maturity of the contract in a subsequent fiscal period. Thus, when the $21.00 due the bookkeeper January 3 is paid, the transaction results in a decrease in the asset cash $21.00, a decrease in the liability accrued wages $10.50, and an increase in the expense $10.50. The entry in the cash book to record this transaction showing the desired effect on assets, liabilities and proprietorship is:

				CASH	Payments
19					
Jan.	3		Accrued Salaries	Bookkeeper's Salary	10 50
	3		Office Salaries	" "	10 50

Accrued Expenses. Metered services such as electricity, gas, and water will accrue day by day because of the daily service rendered. The usual plan is for the company rendering the service to read the meter monthly, render a bill for the value of the service, and collect for it at that time. When the bill for this service is paid, the accrued liability resulting from this daily increase in the cost of the service is canceled through payment of the bill.

The accrued liability and the resulting accrued expense because of metered services are usually not given consideration except at the close of the fiscal period. The reason for this is explained in the following paragraph.

Recording Accrued Expenses. When a bill is received for metered service, the bill is paid, hence the liability is not recorded. The entry in the illustration below is to record payment of the December electric bill received and paid January 2.

				CASH	Payments
19					
Jan.	2		Miscellaneous Expense	December Electric Bill	12 50

This plan of recording accrued expenses by paying the bill is satisfactory when the bill is paid in the same fiscal period for which the service is rendered. When the service is rendered in one fiscal period and the bill not received until a subsequent fiscal period, it will be necessary to record at the close of the fiscal period the increase in the liability and the expense because of the service. This is necessary that the Balance Sheet may show the correct proprietorship and the Profit and Loss Statement the correct net profit for the fiscal period.

The liability at the close of the fiscal period because of metered services rendered is determined by reading the meter and ascertaining the value of the service at the unit price for the number of units used. The value of the metered service consumed but not paid for, is recorded as a debit to the appropriate expense account, and the amount of the liability as a credit to the Accrued Expense account.

Assuming that the electric light expense of $12.50 referred to in a previous paragraph was the value of the electricity consumed during December

as shown by the reading of the meter, December 31, and that the annual or fiscal period ends December 31, the entry to record this accrued liability and the resulting expense is in the illustration at the right. The Miscellaneous Expense account is debited to record the increase in expense, the cost of electricity being regarded as a miscellaneous expense. The increase in the liability is recorded as a credit to the Accrued Expense account.

December 31, 19					
	Miscellaneous Expense		12 50		
	Accrued Expense				12 50
	To record the accrued electric light expense.				

Payment of Accrued Expenses. Recording the accrued expense at the close of the fiscal period because of accrued liability makes it necessary to give consideration to this record when the bill for electricity consumed is rendered by the company. Since the expense because of the electricity consumed in December has already been recorded as such, the entry to record the bill when paid January 2 is:

			CASH	Payments	
19 Jan.	2	Accrued Expense	December Electric Light Bill	12 50	

This transaction results in a decrease in the liability, hence a debit to the liability account, and a decrease in the assets, hence a credit to the Cash account. When the entry is posted, the Accrued Expense account will balance.

Accrued Property Tax. Property taxes are usually assessed annually at a designated date and recorded as an expense when paid. When the taxes applicable to a fiscal period have not been paid at the close of a fiscal period, a liability will exist because they must be paid in a subsequent fiscal period. The amount of this liability may be definitely determined if the taxes have been assessed, otherwise the amount of the liability will be based on previous assessments. The accrued taxes, which may be either known or estimated, is referred to as the liability *accrued property taxes*. Recording the liability, accrued taxes, results in an increase in the liabilities and a corresponding increase in expenses; this is referred to as *property taxes*.

At the close of the fiscal period, December 31, G. E. Hunt & Son estimate the liability because of unpaid property taxes to be $237.65. The entry to record this increase in liabilities and expenses is in the illustration at the left. The increase in expenses is recorded as a debit to the Property Taxes account and the increase in liabilities as a credit to the Accrued Property Taxes account

December 31, 19					
	Property Taxes		237 65		
	Accrued Property Taxes				237 65
	Accrued taxes on property at close of fiscal period.				

Payment of Accrued Property Taxes. Recording the accrued expense because of unpaid property taxes at the close of a fiscal period makes it necessary to give consideration to this record when the tax bill is paid in a subsequent period. When paid, the Accrued Property Taxes account is debited for the amount of the liability and the Property Taxes account debited for the remainder which is the taxes applicable to the current fiscal period.

February 15. G. E. Hunt & Son paid a property tax bill for $262.50. This transaction decreases the asset cash $262.50, the liability, accrued property taxes $237.65, and increases the expenses $24.85. The entry to record this transaction is:

				CASH	Payments
19					
Feb.	15		Accrued Property Taxes	Taxes on property	237 65
	15		Property Taxes	Taxes on property	24 85

When this entry is posted, the Accrued Property Taxes account will be in balance and the Property Taxes account will show the expense because of taxes.

If the recorded liability because of unpaid taxes was based on estimate and the amount of the tax bill when received is less than the estimate, the balance of the Accrued Property Taxes account may be transferred to the credit of the Property Taxes account. If this transfer is not made, the over-estimated liability will be given consideration when recording the liability for property taxes at the close of the fiscal period.

The Accrued Expenses to be given consideration at the close of the fiscal period are usually the following:

(1) Accrued interest on interest-bearing notes payable.

(2) Accrued salaries or wages because the pay day is not the same date as the close of the fiscal period.

(3) Accrued expenses because of metered services or other unpaid expenses.

(4) Accrued property taxes because of unpaid taxes which have not been recorded as a liability.

Adjustments for Accrued Income and Expenses. If desired, the assets and liabilities recorded on the ledger at the close of the fiscal period because of accrued assets and accrued liabilities may be allowed to remain on the ledger until the contracts are completed and recorded at that time as explained in the various illustrations. This plan is satisfactory when only a few adjustments because of accrued assets and accrued liabilities are required at the close of the fiscal period.

When many transactions during a current fiscal period are affected because of accruals recorded at the close of the preceding fiscal period, much time will be required to analyze each transaction to determine its effect. To avoid the necessity of this analysis, the accruals may be transferred to the appropriate expense and income accounts at the beginning of each fiscal period. This plan permits recording income and expenses during the current fiscal period in the same manner as if no accruals had been recorded at the close of the previous fiscal period.

The accrued assets and accrued liabilities are transferred to the appropriate income or expense accounts through entries in the general journal. The entries in the illustration at the right show the method of transferring the accruals recorded in this chapter to the appropriate income and expense accounts at the beginning of the fiscal period, January 2. When this entry is posted, the accounts in which accruals are recorded as assets or liabilities will be in balance and the appropriate income or expenses debited or credited. When these facts are so recorded on the ledger, each transaction completed during the period may be recorded without giving consideration to accruals. All interest collected will be recorded as a credit to the Interest Income account and all interest paid as a debit to the Interest Expense account. All expense bills paid will be debited to the appropriate expense account.

January 2, 19

Interest Income	7	50		
Accrued Int. on Notes Rec.			7	50
To adjust the Accrued Interest on Notes Receivable account.				
2				
Accrued Int. on Notes Pay.	15	—		
Accrued Wages	10	50		
Accrued Expense	12	50		
Accrued Property Taxes	237	65		
Interest Expense			15	—
Office Salaries			10	50
Miscellaneous Expense			12	50
Property Taxes			237	65
To adjust the accrued liability accounts.				

SUMMARY

Accruals. Income and expenses accrue daily. No consideration is given to the increase in income or expense because of accruals until the close of the fiscal period. At the close of the fiscal period, the accrued income is recorded as an increase in assets and an increase in the income; the accrued expenses are recorded as an increase in the expenses and an increase in the liabilities. At the beginning of each fiscal period, it is customary to reverse the entry because of accruals so that the income and expenses may be recorded in the appropriate income and expense accounts.

The Accrued Interest on Notes Receivable Account contains the asset interest accrued on notes receivable at the close of the fiscal period. This account is *debited* with the asset value of the accrued interest at the close of the fiscal period and *credited* at the beginning of the next fiscal period with the same amount. At the close of the fiscal period the *debit* balance is an asset; during the fiscal period the account is in balance.

The Accrued Expense Accounts contain the amount of the accrued expense at the close of the fiscal period. The account titles required to contain a record of the accrued expenses are usually Accrued Interest on Notes Payable, Accrued Salaries and Wages, Accrued Expenses, and Accrued Property Taxes. Each account is *credited* at the close of the fiscal period with the

liability because of the unpaid expense and debited at the beginning of the fiscal period with the same amount. At the close of a fiscal period the *credit* balance of each account shows a liability; during the fiscal period each account is in balance.

Exercise 128, Accrued Expenses

(ORAL OR WRITTEN)

1. May 16. A. L. Payne & Son issued a 60-day 6% interest-bearing note for $2000.00 to the Dexter Manufacturing Company, a creditor, in full of account. (a) What entry is required to record this note on the date of issue? (b) What entry is required to record the increase in liabilities because of the accrued interest at the close of the fiscal period June 30? (c) State the entry in journal form to record the payment of the note at maturity?

2. June 30, the close of the fiscal period mentioned in the preceding question, occurs on Thursday. The weekly pay roll of A. L. Payne & Son is $450.00 equally divided between store salaries and office salaries, payable Saturday, July 2. (a) What entry is required to record the accrued wages at the close of the fiscal period? (b) What entry is required to record the A. L. Payne & Son pay roll when paid Saturday?

3. At the close of the fiscal period, June 30, referred to in the preceding question, a reading of the gas and electric meter for A. L. Payne & Son shows the cost of gas and electricity consumed during the month, $14.75. (a) What entry is required to record this liability assuming that light bills are charged to Miscellaneous Expense when paid? (b) What entry is required to record the payment of the gas and electric bills of $20.00 when received July 15?

4. At the close of the annual fiscal period, June 30, A. L. Payne & Son estimate that the unpaid property taxes applicable to the fiscal year is $116.50. What entry is required (a) to record this accrued liability? (b) to record the payment of property taxes, $132.25, August 15 in the next fiscal period?

5. The proprietorship of V. A. Wise at the beginning of the fiscal period, October 1, stated in equation form is:

ASSETS $16,500.00 − LIABILITIES $2,400.00 = V. A. WISE, PROP., $14,100.00

The bookkeeper had failed to record the accrued wages, $85.50. Restate the equation showing the correct proprietorship.

6. The proprietorship of A. L. Lowe stated in equation form is:

ASSETS $26,200.00 − LIABILITIES $6,100.00 = A. L. LOWE, PROP., $20,100.00

The bookkeeper failed to record the accrued interest on notes receivable, $12.50, and the accrued property taxes, $35.00. Restate the equation showing assets, liabilities and proprietorship after these accruals have been recorded.

Exercise 129, Accruals

At the close of the annual fiscal period, December 31, adjustments are required because of the following: office supplies used, $62.90; store supplies used, $321.60; delivery supplies used, $396.50; expired insurance on mer-

chandise, $198.75; expired insurance on fixed assets, $32.50; expired insurance on delivery equipment, $375.20; depreciation on office equipment, $29.80; depreciation on store equipment, $81.35; depreciation on delivery equipment, $321.40; prepaid interest on notes payable, $21.65; accrued interest on notes receivable, $32.80; accrued interest on notes payable, $55.50; accrued office salaries, $91.45; accrued sales salaries, $44.50; accrued metered expenses, $15.90; accrued property taxes, $121.40.

Instructions. Prepare journal entries to record all of these adjustments.

Exercise 130, Working Sheet and Reports

The Trial Balance in the illustration at the right was prepared from the ledger of Starr & Company at the close of the annual fiscal period, June 30. The inventories are as follows: merchandise, $6,834.75; store supplies, $265.78; delivery supplies, $15.40; office supplies, $127.50. The accruals are as follows: Expired insurance on merchandise, $52.50; expired insurance on store equipment, $17.35; expired insurance on delivery equipment, $216.25; expired insurance on office equipment, $11.50; accured interest on notes receivable, $9.25; prepaid interest on notes payable, $13.50; accrued interest on notes payable, $8.76; accrued sales clerks' salaries, $137.50; accrued driver's wages, $27.25; accrued office salaries, $162.75. Annual depreciation: office equipment, 5%; store equipment, 5%; delivery equipment, 25%. Reserve for bad debts, ½ of 1% of the sales.

STARR & COMPANY
TRIAL BALANCE, June 30, 19

Cash	2995	18		
Notes Receivable	850	—		
Accounts Receivable	5475	80		
Merchandise Inventory	3498	60		
Store Supplies	720	93		
Delivery Supplies	445	25		
Office Supplies	203	35		
Prepaid Insurance	328	95		
Store Equipment	1025	50		
Delivery Equipment	1275	—		
Office Equipment	610	25		
Notes Payable			1500	—
Accounts Payable			2777	50
Albert Starr, Capital			5000	—
Mabel Starr, Capital			5000	—
Sales			38990	30
Sales Ret. and Allow.	207	10		
Freight Out	30	15		
Purchases	21219	32		
Freight In	1755	40		
Purchases Ret. and Allow.			275	25
Salaries of Sales Clerks	3147	90		
Advertising Expense	2892	75		
Misc. Selling Expense	55	72		
Wages of Truck Driver	1470	25		
Misc. Delivery Expense	65	17		
Office Salaries	3087	50		
Rent	2100	—		
Misc. General Expense	463	85		
Purchases Discount			517	56
Interest Income			25	02
Sales Discount	75	18		
Interest Expense	86	53		
	54085	63	54085	63

Instructions. From the information given prepare a Working Sheet, Balance Sheet, Profit and Loss Statement, adjusting and closing entries. (Present proprietorship, $14,350.01; net profit, $4,350.01, to be divided equally between the partners.)

CHAPTER XXIX

BALANCE SHEET AND PROFIT AND LOSS STATEMENT FOR A PARTNERSHIP

The illustrations in this chapter contain the account balances on the general ledger resulting from posting the books of original entry illustrated in the preceding chapter. The discussion relates to (a) the ten column Working Sheet, (b) the classified Balance Sheet and the classified Profit and Loss Statement for a partnership, and (c) adjusting and closing entries.

Transactions Completed by a Partnership. As was explained in Chapter XXI, the transactions completed by a partnership do not differ from those completed by a sole proprietorship for a similar business. At the beginning of each fiscal period, the proprietorship of each partner is recorded in his Capital account; the sum of the asset account balances on the ledger minus the sum of the liability account balances equals the sum of the balances of the partners' Capital accounts.

Each transaction affects either (a) the assets, (b) the assets and liabilities, (c) the liabilities, (d) the assets and proprietorship, (e) the liabilities and proprietorship, (f) the proprietorship and distribution of profit. Each transaction completed is recorded so that the proprietorship at the close of each fiscal period may be ascertained and recorded in the Capital accounts.

During the Fiscal Period each sale is recorded as an increase in assets and an increase in income for the full amount of the sale. The cost of merchandise purchased, the selling price of merchandise sold, the cost of supplies and insurance premiums purchased, and the cost of equipment purchased are recorded at the time the transactions are completed.

At the Close of each Fiscal Period it is necessary to record (a) the cost of merchandise *sold* in all sales, (b) the expense because of supplies *consumed* and insurance *expired*, (c) the *expense* because of the estimated depreciation on fixed assets, and (d) the *income* and *expense* because of accruals. The accruals require recording increases in assets and increases in liabilities as well as increases in income and increases in expenses.

The *illustrations* and the discussion in connection with them in the following paragraphs relate to the work required at the close of a fiscal period. The illustrations are based on the transactions completed during the month of January by Helm & Stein, the partnership referred to in Chapter XXV

The Working Sheet on page 347 was prepared from the Trial Balance January 31 (shown in the first two columns) and the inventories, accruals and depreciation listed at the top of page 345.

Merchandise inventory, $18,684.42
Accrued Interest on Notes Receivable, $2.76
Office Supplies, $62.25; Store Supplies, $210.10
Stamps and parcel post insurance coupons, $196.67
Expired Insurance: on merchandise, $15.50; on fixed assets, $4.50
Prepaid Interest on Notes Payable, $15.00
Annual Depreciation on Office Equipment, 6%
Annual Depreciation on Store Equipment, 6%
Accrued Interest on Notes Payable, $23.33
Accrued Wages: Store Salaries, $40.00; Delivery Expense, $7.50; Office Salaries, $50.00.

The Working Sheet illustrated contains ten columns, two for (a) January 31 Trial Balance, (b) Adjustments, (c) Adjusted Trial Balance, (d) Balance Sheet, and (e) Profit and Loss Statement. The Adjusted Trial Balance contains the balance of each account on the January 31 Trial Balance and the effect of the adjustments on these balances. The method of completion is in the following order.

(1) The effect of each deferred asset, accrual, and depreciation is recorded in the debit and credit Adjustments columns on a line with the account titles affected. The accrued interest on notes receivable affects the Accrued Interest on Notes Receivable and Interest Income accounts; the office supplies inventory affects the Office Supplies and Office Supplies Used accounts, etc. The trading accounts are not adjusted on the Working Sheet, but since the merchandise inventory, January 31, is needed in completing the Working Sheet, the amount is recorded in the Adjusted Trial Balance Dr. and Cr. columns on a line with the Merchandise Inventory account.

(2) The effect of the debit and credit adjustments on the account balances is shown by the new account balances extended in the Adjusted Trial Balance columns. Where there are no adjustments on an account, the amount in the January 31 Trial Balance column is extended in the Adjusted Trial Balance column. Thus, the balances of the Cash and Notes Receivable accounts in the Trial Balance Dr. column are extended in the Adjusted Trial Balance Dr. column. The $2.76 in the Adjustments Dr. column on the line with Accrued Interest on Notes Receivable is entered in the Adjusted Trial Balance Dr. column. The balances of the Accounts Receivable and Merchandise Inventory accounts in the Trial Balance Dr. column are extended in the Adjusted Trial Balance Dr. column. The $64.50 in the Adjustments Cr. column on the line with Office Supplies is subtracted from the balance of the account in the Trial Balance Dr. column, and the difference is entered in the Adjusted Trial Balance Dr. column. The other amounts are extended in a similar manner.

Since the January 31 Trial Balance is in balance and the sum of the debit adjustments equals the sum of the credit adjustments, it is evident that the Adjusted Trial Balance will balance if the extensions are made as suggested.

(3) The balance of each account in the Adjusted Trial Balance Dr. or Cr. column is extended into one of the four columns provided for (a) assets,

(b) liabilities and proprietorship, (c) costs and expenses, and (d) income. The January 31 inventory, $18,684.42 (Merchandise Inventory Dr.), is an asset and is entered in the Assets column. The January 1 inventory, $15,500.00 (Merchandise Inventory Dr.), is a cost and is entered in the Costs column. The credit of $18,684.42 in the Merchandise Inventory account is entered in the Income column because this amount is a deduction from the total cost of merchandise purchased as shown by the beginning inventory and the Purchases account entered in the Costs column. The book value of fixed assets is extended into the Assets column.

(5) The purpose of the Working Sheet is to ascertain present proprietorship, net profit and proof of their correctness. This information is provided through the totals of the Balance Sheet and Profit and Loss Statement columns. The totals of the Balance Sheet columns stated in equation form are:

ASSETS $36,409.29 = LIABILITIES $10,655.63 + R. S. HELM, CAP. $12,876.83 + A. N. STEIN, CAP. $12,876.83

The totals of the Profit and Loss Statement columns stated in equation form are:

TOTAL INCOME $27,396.63 − TOTAL EXPENSES $26,642.97 = NET PROFIT $753.66

Proof is secured from the following equation:

PRES. CAPITAL $25,753.66 − INVESTED CAPITAL $25,000.00 = NET PROFIT $753.66

The Balance Sheet on page 348 was prepared from the Balance Sheet columns on the Working Sheet page 347. Each partner will receive a copy of the Balance Sheet, hence will be interested in having detailed information regarding the nature of the assets and liabilities. For this reason, the assets are arranged in three groups, current assets, deferred assets, and fixed assets.

Current Assets include cash and those assets which will become cash in the usual operations of the business. Notes receivable and the accrued interest will become cash when due and collection is made from the maker of each note. Accounts receivable will become cash when collection is made from each charge customer. Merchandise in stock will become cash when sold for cash or sold on credit and cash received from the charge customer.

Deferred Charges which are sometimes referred to as deferred assets include those assets on hand at the close of the fiscal period which were purchased for use in the operation of the business, but have not yet been consumed. Deferred charges include property and services. Property consists of all types of supplies for use in the office, store room, and delivery department. Services include prepaid insurance and prepaid interest on notes payable.

Fixed Assets include those assets purchased for use in the business which will be of service for a number of fiscal periods. Fixed assets include real and personal property. All types of fixed assets except land decrease in value day by day. The book value of a fixed asset is the difference between its cost value and the recorded depreciation.

Current Liabilities include those which will be due and payable within a short time. Each note payable will mature within sixty or ninety days.

Helm & Stein
Working Sheet, January 31, 19

NAME OF ACCOUNT	TRIAL BALANCE DR.	TRIAL BALANCE CR	ADJUSTMENTS DR.	ADJUSTMENTS CR	ADJ. TRIAL BALANCE DR	ADJ. TRIAL BALANCE CR	BALANCE SHEET ASSETS	BALANCE SHEET LIAB. & PROP	P & L. STATEMENT COSTS & EXP	P & L. STATEMENT INCOME
Cash	876733				876733		876733			
Notes Receivable	81840				81840		81840			
Accrued Int. on Notes Rec.			276		276		276			
Accounts Receivable	494486				494486		494486			
Merchandise Inventory	15500 —				15500 —	1868442	1868442		15500 —	1868442
Office Supplies	12675			6450	6225		6225			
Store Supplies	33375			12265	21110		21110			
Postage & P. P. Insurance	22227			2560	19667		19667			
Prepaid Insurance	240 —			20 —	220 —		220 —			
Prepaid Int. on Notes Pay.			15 —		15 —		15 —			
Office Equipment	1950 —				1950 —		1940 25			
Dep. Reserve for Office Equip.				975		975				
Store Equipment	550 —				550 —		547 25			
Dep. Reserve for Store Equip.				275		275				
Notes Payable		7000 —				7000 —		7000 —		
Accrued Int. on Notes Pay.				2333		2333		2333		
Accounts Payable		353480				353480		353480		
Accrued Wages				9750		9750		9750		
R. S. Helm, Capital		12500 —				12500 —		12500 —		
A. N. Stein, Capital		12500 —				12500 —		12500 —		
Sales		844045				844045				844045
Sales Returns & Allowances	20 —				20 —				20 —	
Purchases	849810				849810				849810	
Purchases Returns & Allow.		11750				11750				11750
Freight In	12647				12647				12647	
Store Salaries	320 —		40 —		360 —				360 —	
Delivery Expense	60 —		7750		6750				6750	
Store Supplies Used			12265		12265				12265	
Expired Ins. on Mdse.			1550		1550				1550	
Dep. on Store Equip.			275		275				275	
Rent Expense	300 —				300 —				300 —	
Office Salaries	400 —		50 —		450 —				450 —	
Partners Salaries	1000 —				1000 —				1000 —	
Office Supplies Used			6450		6450				6450	
Postage Used			2560		2560				2560	
Expired Ins. on Fixed Assets			450		450				450	
Dep. on Office Equip.			975		975				975	
Mis. General Expense	1335				1335				1335	
Purchases Discount		12990				12990				12990
Interest Income		2160		276		2436				2436
Sales Discount	3397				3397				3397	
Interest Expense	20 —		2333	15 —	2838				2838	
	4424423	4424423	38384	38384	6306476	6306476	3640929	3565563	2664297	2739663
Net Profit								75366	75366	
							3640929	3640929	2739663	2739663

Illustration 68 Working Sheet

The amount paid at maturity will include the face of the note and interest for the time of the loan. Each account payable will be due and payable within thirty or sixty days. The accrued wages will be due on the first pay day in the next current fiscal period.

The current assets will be required for paying current liabilities when they mature. Showing the current assets in one amount and current liabilities in one amount permits each partner to know the amount of current assets available for paying current liabilities.

Proprietorship is the equity of the partners in the assets belonging to the partnership after the liabilities are deducted. The proprietorship of each partner is shown separately so that each may know his equity in the assets.

HELM & STEIN

BALANCE SHEET, JANUARY 31, 192 .

Current Assets:			
Cash		8767.33	
Notes Receivable		818.40	
Accrued Interest on Notes Receivable		2.76	
Accounts Receivable		4944.86	
Merchandise Inventory		18684.42	
Total Current Assets			33217.77
Deferred Charges			
Office Supplies		62.25	
Store Supplies		210.10	
Postage and Parcel Post Insurance		196.67	
Prepaid Insurance		220.00	
Prepaid Interest on Notes Payable		15.00	
Total Deferred Charges			704.02
Fixed Assets:			
Office Equipment	1950.00		
Less Depreciation Reserve	9.75	1940.25	
Store Equipment	550.00		
Less Depreciation Reserve	2.75	547.25	
Total Fixed Assets			2487.50
Total Assets			36409.29
Current Liabilities:			
Notes Payable		7000.00	
Accrued Interest on Notes Payable		23.33	
Accounts Payable		3534.80	
Accrued Wages		97.50	
Total Liabilities			10655.63
Proprietorship:			
R. S. Helm, Present Proprietorship		12876.83	
A. N. Stein, Present Proprietorship		12876.83	
Total Proprietorship			25753.66

Illustration 64, Balance Sheet for a Partnership

Profit and Loss Statement. The Profit and Loss Statement on page 350 was prepared from the Profit and Loss Statement columns on the Working Sheet, page 347. The increases and decreases in proprietorship are classified as (a) operating income, (b) cost of sales, (c) selling expenses, (d) general expenses, (e) non-operating income, and (f) non-operating expenses.

Operating Income is that anticipated as the chief source of revenue at the time the business was organized. When the partnership was formed, the partners expected to derive a profit from the sale of merchandise, hence the balance of the Sales account is the operating income. This is decreased through sales returns and allowances which are deductions from sales.

Cost of Sales. The cost of merchandise made available for sale less the inventory value of merchandise at the close of the fiscal period is the cost of the merchandise sold. The cost of sales is shown immediately following operating income because the cost of the merchandise sold is subtracted from the net returns from sales to ascertain the gross profit on sales.

Selling Expenses include the expenditures necessary to earn the operating income. These are referred to as *selling* expenses because they are incurred to make sales. Selling expenses include (a) salaries of sales clerks, (b) advertising expense, (c) delivery expense, (d) store supplies used, (e) expired insurance on merchandise and store equipment, (f) depreciation on store equipment, (g) depreciation on delivery equipment, and (h) miscellaneous selling expenses (expenses too small to be classified). When the firm owns its own delivery equipment, the various expenses required to maintain the delivery equipment are selling expenses and are included with this classification.

General Expenses are those expenditures necessary to maintain the office and include (a) rent, (b) office salaries, (c) partners and officers salaries, (d) expired insurance on fixed assets, (e) office supplies used, (f) depreciation on office equipment, and (g) miscellaneous general expenses (expenses too small to be classified).

Non-operating Income refers to income earned in addition to the operating income. Purchases discount and interest income are the only non-operating income on the Profit and Loss Statement illustrated. Non-operating income is usually shown on the Profit and Loss Statement as an addition to the net profit from operations.

Deductions from Income include those expenditures which are not a part of the usual operating expenses. Sales discount and interest expense are the only two non-operating expenses on the Profit and Loss Statement illustrated. Non-operating expenses are usually shown on the Profit and Loss Statement as deductions from income following the non-operating income.

Net Profit. The profit from the ordinary operations of the business is referred to as Net Profit from Operations. The sum of the Net Profit from

Operations and non-operating income (Other Income) is considered Gross Income. Gross Income minus non-operating expenses (Deductions from Income) is Net Profit.

HELM & STEIN

PROFIT AND LOSS STATEMENT FOR MONTH ENDING JANUARY 31, 192 .

Income from Sales:			
Gross Sales		8440.45	
Less Sales Returns and Allowances		20.00	
Net Sales			8420.45
Cost of Merchandise Sold:			
Merchandise Inventory, Jan. 1		15500.00	
Purchases	8498.10		
Less Returns and Allowances	117.50		
Net Purchases		8380.60	
Freight In		126.47	
Cost of Mdse. Available for Sale		24007.07	
Less Inventory, Jan. 31		18684.42	
Cost of Merchandise Sold			5322.65
Gross Profit on Sales			3097.80
Expenses:			
Selling Expenses:			
Store Salaries	360.00		
Delivery Expense	67.50		
Store Supplies Used	122.65		
Expired Insurance on Merchandise	15.50		
Depreciation on Stores Equipment	2.75	568.40	
General Expenses:			
Rent Expense	300.00		
Office Salaries	450.00		
Partners Salaries	1000.00		
Office Supplies Used	64.50		
Postage Used	25.60		
Expired Insurance on Fixed Assets	4.50		
Depreciation on Office Equipment	9.75		
Miscellaneous Expense	13.35	1867.70	
Total Expenses			2436.10
Net Profit from Operations			661.70
Other Income:			
Purchases Discount		129.90	
Interest Income		24.36	
Total Other Income			154.26
Gross Income			815.96
Deductions from Income:			
Sales Discount		33.97	
Interest Expense		28.33	
Total Deductions from Income			62.30
Net Profit			753.66

Illustration 65, Profit and Loss Statement for a Partnership

The Adjusting Entries on page 352 are those needed to record the adjustments in the Adjustments columns of the Working Sheet on page 347.

The Trial Balance in the first two columns of the Working Sheet was prepared from the ledger. If the accounts on the ledger are to show the account balances in the Adjusted Trial Balance on the Working Sheet, it will be necessary to record these adjustments in the journal and post them to the ledger.

The adjusting entries are usually recorded in the same order as the adjustments are entered in the Adjustments columns on the Working Sheet. The entries in the illustration on page 352 may be briefly described as follows:

(1) *Entry to record accrued assets.* Accrued interest on notes receivable is the only accrued asset. The first entry in the illustration records the increase in assets and increase in income because of the accrued interest.

(2) *Entries to adjust the deferred charges.* The second entry in the illustration records the increase in expense because of the consumption of the three classes of supplies; the third entry, the increase in expense because of expired insurance on two classes of property; and the fourth, the decrease in the expense because part of the interest expense is applicable to a later period.

(3) *Entry to record the depreciation of fixed assets.* The fifth entry in the illustration records the increase in expense because of the depreciation on two classes of fixed assets. The increase in expense is recorded in two expense accounts with descriptive titles and the estimated decrease in the value of the assets, in two depreciation reserve accounts with descriptive titles.

(4) *Entries to record the accrued liabilities.* There are two accrued liabilities, interest on notes payable and accrued wages. The sixth entry in the illustration records the increase in expense because of accrued interest on notes payable and the seventh and concluding entry records the increase in expense because of wages earned by employees but not paid.

(5) *Merchandise inventory.* When the trading account balances are summarized in a trading division of the Profit and Loss Summary account, the adjustment for the merchandise inventory is not made through the Purchases account. The merchandise inventory is recorded in connection with the closing entries as shown on page 353.

The Closing Entries on page 353 are those necessary to summarize the increases and decreases in proprietorship in the Trading, Profit and Loss Summary account and to transfer the balance of this account (net profit) to the partners' accounts. These entries are required to close the temporary proprietorship accounts and record in each partner's Capital account his share of the net profit for the fiscal period. When these closing entries are posted the account balances on the ledger provide the needed information for the equation "ASSETS = LIABILITIES + PROPRIETORSHIP."

(*Continued on page 354*)

PAGE 2 January 31, 19

L. F.	NAME OF ACCOUNT AND EXPLANATION	GENERAL LEDGER DR.	GENERAL LEDGER CR	ACCOUNTS PAY LEDGER CR.	ACCOUNTS REC LEDGER DR
5	Accrued Interest on Notes Receivable	2 7 6			
137	Interest Income		2 7 6		
	To record accrued interest income				
	31				
121	Office Supplies Used	6 4 5 0			
123	Store Supplies Used	1 2 2 6 5			
124	Postage Used	2 5 6 0			
23	Office Supplies		6 4 5 0		
25	Store Supplies		1 2 2 6 5		
29	Postage and P.P. Insurance		2 5 6 0		
	To record supplies and postage used				
	31				
125	Expired Insurance on Merchandise	1 5 5 0			
126	Expired Insurance on Fixed Assets	4 5 0			
27	Prepaid Insurance		2 0 —		
	To record expired insurance				
	31				
31	Prepaid Interest on Notes Payable	1 5 —			
147	Interest Expense		1 5 —		
	To record prepaid interest expense				
	31				
119	Depreciation on Office Equipment	9 7 5			
120	Depreciation on Store Equipment	2 7 5			
37	Depreciation Reserve for Office Equip		9 7 5		
38	Depreciation Reserve for Store Equip		2 7 5		
	To record estimated depreciation on fixed assets				
	31				
147	Interest Expense	2 3 3 3			
47	Accrued Interest on Notes Payable		2 3 3 3		
	To record accrued interest expense				
	31				
101	Store Salaries	4 0 —			
103	Delivery Expense	7 5 0			
111	Office Salaries	5 0 —			
45	Accrued Wages		9 7 5 0		
	To record 3 days accrued salaries				

Illustration 66, Adjusting Entries (General Journal, Page 2)

January 31, 19 — PAGE 3

L. F.	NAME OF ACCOUNT AND EXPLANATION	GENERAL LEDGER DR.	GENERAL LEDGER CR.	ACCOUNTS PAY LEDGER DR.	ACCOUNTS REC LEDGER CR.
151	Trading, Profit and Loss Summary	15500 —			
11	Merchandise Inventory		15500 —		
	To close Mdse. Inventory acct				
	31				
11	Merchandise Inventory	1868442			
151	Trading, Profit and Loss Summary		1868442		
	To record mdse. inventory 1/31				
	31				
75	Sales	844043			
83	Purchases Returns and Allowances	11750			
151	Trading, Profit and Loss Summary		855793		
	To close the trading accounts				
	which have a credit balance				
	31				
151	Trading, Profit and Loss Summary	864457			
81	Purchases		849810		
85	Freight In		12647		
77	Sales Returns and Allowances		20 —		
	To close the trading accounts				
	which have a debit balance				
	31				
151	Trading, Profit and Loss Summary	56840			
101	Store Salaries		360 —		
103	Delivery Expense		6750		
123	Store Supplies Used		12265		
125	Expired Insurance on Merchandise		1550		
120	Depreciation on Store Equipment		275		
	To close selling expense accounts				
	31				
151	Trading, Profit and Loss Summary	18770			
115	Rent Expense		300 —		
111	Office Salaries		450 —		
113	Partners Salaries		1000 —		
121	Office Supplies Used		6450		
124	Postage Used		2560		
126	Expired Insurance on Fixed Assets		450		
119	Depreciation on Office Equipment		975		
117	Miscellaneous General Expense		1335		
	To close general expense accounts				

Illustration 67, Closing Entries (General Journal, Page 3)

PAGE 4 — January 31, 19

L. F.	NAME OF ACCOUNT AND EXPLANATION	GENERAL LEDGER DR.	GENERAL LEDGER CR.	ACCOUNTS PAY LEDGER DR.	ACCOUNTS REC LEDGER CR.
135	Purchases Discount	129 90			
137	Interest Income	24 36			
	Trading, Profit and Loss Summary		154 26		
	To close the other income accounts				
	31				
151	Trading, Profit and Loss Summary	62 30			
145	Sales Discount		33 97		
147	Interest Expense		28 33		
	To close the deductions from				
	income accounts				
	31				
151	Trading, Profit and Loss Summary	753 66			
61	R. S. Helm, Capital		376 83		
63	A. M. Stein, Capital		376 83		
	To close the Trading, Profit				
	and Loss Summary account				

Illustration 67, Closing Entries—Concluded (General Journal, Page 4)

The information for the closing entries is obtained from the Profit and Loss columns on the Working Sheet. The account on the line with each amount in the Costs and Expense column is credited and the account on the line with each amount in the Income column is debited. Each account may be closed by a separate entry, or compound journal entries may be used as in Illustration 67. The closing entries are usually made in the following order:

(1) *Entries to summarize the trading accounts.* The first four entries on page 353 are to record the inventory, January 31, and summarize in the Trading, Profit and Loss Summary account the balances of the trading accounts. The first entry transfers the inventory, January 2; the second records the merchandise inventory, January 31; the third transfers the trading accounts with a credit balance; and the fourth transfers the trading accounts with a debit balance. When this entry is posted the Trading account is balanced by entering the profit on sales on the debit side. The account is then ruled and the profit on sales carried down to the credit side below the ruling.

(2) *Entry to summarize the operating expense accounts.* Two compound journal entries are made to transfer the balance of each operating expense account to the Trading, Profit and Loss Summary account; the fifth and sixth entries in the illustration on page 353 show the method of making this transfer.

(3) *Entry to summarize the non-operating income accounts.* One compound journal entry is sufficient to transfer the balance of each non-operating income

account to the Trading, Profit and Loss Summary account; the first entry in the illustration on page 354 shows the method of making this transfer.

(4) *Entry to summarize the non-operating expense accounts.* One compound journal entry is sufficient to transfer the balance of each non-operating expense account to the Trading, Profit and Loss Summary account; the second entry in the illustration on page 354 shows the method of making this transfer.

(5) *Entry to close the Trading, Profit and Loss Summary account.* The balance of the Trading, Profit and Loss Summary account which shows the net profit is transferred to the partners' Capital accounts in accordance with the terms of the Articles of Co-partnership. This transfer is made through one compound journal entry as illustrated in the third entry on page 354.

The Trading, Profit and Loss Summary Account in the illustration below shows the results of posting the closing entries on pages 353 and 354. It is customary when summarizing account balances in a summary account to

Trading, Profit and Loss Summary

19					19				
Jan.	31	Mdse. Inv.	J3	15500 —	Jan.	31	Mdse. Inv.	J3	18684 42
	31	Purchases	J3	8498 10		31	Sales	J3	8440 45
	31	Freight In	J3	126 47		31	Pur. Ret. & Allow.	J3	117 50
	31	Sales Ret. & Allow.	J3	20 —					
	31	Profit on Sales	✓	[illegible]					
				27242 37					27242 37
Jan.	31	Store Salaries	J3	360 —	Jan.	31	Profit on Sales	✓	3097 80
	31	Delivery Expense	J3	67 50		31	Purchases Dis.	J4	129 90
	31	Store Supplies Used	J3	122 65		31	Interest Income	J4	24 36
	31	Exp. Ins. on Mdse.	J3	15 50					
	31	Dep. on Store Equip.	J3	2 75					
	31	Rent Expense	J3	300 —					
	31	Office Salaries	J3	450 —					
	31	Partners' Salaries	J3	1000 —					
	31	Office Supplies Used	J3	64 50					
	31	Postage Used	J3	25 60					
	31	Exp. Ins. on Furn.	J3	4 50					
	31	Dep. on Office Equip.	J3	9 75					
	31	Misc. Gen. Expense	J3	13 35					
	31	Sales Discount	J4	33 97					
	31	Interest Expense	J4	28 33					
	31	R. S. Helm, Cap.	J4	3768 3					
	31	A. B. Steen, Cap.	J4	3768 3					
				32520 6					32520 6

write the account title in the explanation column of the summary account. This plan facilitates auditing the Profit and Loss Statement with the summary account. If desired, the adjusting and closing entries may be recorded in the general journal from the information contained on the Working Sheet, and the Profit and Loss Statement prepared from the Trading, Profit and Loss Summary account. The information contained on the Profit and Loss Statement is the same whether it is prepared from the Working Sheet or from the summary account.

The Post-closing Trial Balance below was prepared from the ledger after the adjusting and closing entries were posted and the accounts that balance ruled. This Trial Balance is prepared to prove that the ledger is in balance at the beginning of the next fiscal period. These account balances provide the information in the following equation:

ASSETS $36,409.29 = LIABILITIES $10,655.63 + PROPRIETORSHIP $25,753.66

Kelm & Stein
Post-closing Trial Balance, January 31, 19

Cash	8767 33	
Notes Receivable	818 40	
Accrued Interest on Notes Receivable	2 76	
Accounts Receivable	4944 86	
Merchandise Inventory	18684 42	
Office Supplies	62 25	
Store Supplies	210 10	
Postage and PP Insurance	196 67	
Prepaid Insurance	220 00	
Prepaid Interest on Notes Payable	150 00	
Office Equipment	1950 00	
Depreciation Reserve for Office Equipment		97 50
Store Equipment	550 00	
Depreciation Reserve for Store Equipment		27 50
Notes Payable		7000 00
Accrued Interest on Notes Payable		23 33
Accounts Payable		3534 80
Accrued Wages		97 50
R. S. Kelm, Capital		12876 83
A. N. Stein, Capital		12876 83
	36421 79	36421 79

Illustration 68, Post-closing Trial Balance

Classification of Accounts. The account titles listed below are those contained in the ledger of Helm and Stein, and those referred to in this and preceding chapters. The accounts are arranged in the order in which information is reported to the proprietors in the Balance Sheet and Profit and Loss Statement. This is for the convenience of the bookkeeper in making up reports and in recording and locating information. The accounts are grouped or classified under titles indicating their nature as explained on pages 347–349.

BALANCE SHEET

CURRENT ASSETS
- Cash
- Notes Receivable
- Accrued Interest on Notes Receivable
- Accounts Receivable
- —Reserve for Bad Debts
- Merchandise Inventory (ending)

DEFERRED ASSETS
- Office Supplies
- Store Supplies
- Prepaid Insurance
- Postage and Parcel Post Insurance
- Prepaid Interest on Notes Payable

FIXED ASSETS
- Office Equipment
- —Depreciation Reserve for Office Equip.
- Store Equipment
- —Depreciation Reserve for Store Equip.

CURRENT LIABILITIES
- Notes Payable
- Accrued Interest on Notes Payable
- Accounts Payable
- Accrued Wages

CAPITAL (PROPRIETORSHIP)
- R. S. Helm, Capital
- R. S. Helm, Drawing*
- A. N. Stein, Capital
- A. N. Stein, Drawing*

*Drawing accounts are required only for the purpose explained on page 255.

PROFIT AND LOSS STATEMENT

OPERATING INCOME
- Sales
- —Sales Returns and Allowances
- —Freight Out

COST OF MERCHANDISE SOLD
- Merchandise Inventory (beginning)
- Purchases
- Freight In
- —Purchases Returns and Allowances

OPERATING EXPENSE

SELLING
- Store Salaries
- Advertising Expense
- Delivery Expense
- Store Supplies Used
- Expired Insurance on Merchandise
- Depreciation on Store Equipment
- Expired Insurance on Store Equip.
- Miscellaneous Selling Expense

GENERAL
- Rent Expense
- Office Salaries
- Partners' Salaries
- Office Supplies Used
- Postage Used
- Expired Insurance on Office Equip.
- Depreciation on Office Equipment
- Loss on Bad Debts
- Miscellaneous General Expense

NON-OPERATING INCOME
- Purchases Discount
- Interest Income

NON-OPERATING EXPENSE
- Sales Discount
- Interest Expense

Each account title preceded by a minus sign represents a deduction from the title on the line immediately above it. For example, Reserve for Bad Debts is a deduction from the current asset Accounts Receivable. It is not an asset, but it is classified with the current assets since the net value of Accounts Receivable is the difference between the Accounts Receivable account and the Reserve account. The minus sign preceding the title indicates that it is a deduction from the group with which it is classified.

Exercise 131, Classification of Accounts

1. The account in the illustration at the right appears on the ledger of May Sisters. (a) What is the balance of the account? (b) Is it an income or expense? (c) State its classification.

EXPIRED INSURANCE ON MERCHANDISE

192 June	30										87	65					

2. (a) What is the purpose of the journal entry in the illustration at the left? What is the classification of (b) the asset affected? (c) the expense? If the amount stated is one-third of the supplies purchased, what is the balance of the Supplies account (d) before the entry is posted? (e) after it is posted?

June 30, 192

		Supplies Used								21	50						
		Supplies												21	50		
		To record supplies used.															

3. State the classification for the following accounts: (a) Interest Expense, (b) Sales Clerks Salaries, (c) Partners Salaries, (d) Rent Expense, (e) Advertising Material Used, (f) Sales Discount, (g) Purchases Discount?

4. "Received credit at the bank for $252.00, proceeds of a 6% interest-bearing 60-day note (face value $250.00) collected by the bank, less 50c collection charges. (a) State the entry to record this transaction. (b) State the classification of each account in the entry.

5. (a) What is the purpose of the journal entry in the illustration at the right? (b) What explanation should be written under it? (c) What effect does this entry have on the total purchases? What is the classification of (d) the expense affected? (e) the liability affected?

May 11, 192

		Day & Co.								12	50						
		Purchases Returns												12	50		

6. "Paid $4.50 for gasoline to be used in delivery truck." (a) What class of assets is affected by this transaction? (b) What class of expenses?

7. "Paid $87.50 for 10 gasoline coupon books to be used for purchasing gasoline for delivery truck." (a) What classes of assets are affected by this transaction? (b) When will these assets be recorded as expenses? (c) What is the classification of the expense affected?

8. "Gave the Seton Realty Company a check for $250.00, rent for one month." What class of assets and expense are affected?

9. At the close of the fiscal period the insurance register showed expired insurance as follows: merchandise, $86.50; office equipment, $18.75; store

equipment, $13.50; delivery equipment, $98.75. What classes of expenses are affected through recording the expense resulting from the expired insurance?

10. How will the following accounts be classified: (a) Sales Returns, (b) Sales Allowances, (c) Purchases Returns and Allowances, (d) Purchases, (e) Freight In, (f) Freight Out?

11. "Expired insurance on office equipment $12.50, store fixtures $15.75, and delivery equipment $25.50." What two classes of expenses are affected?

12. "Gave the Prince Realty Company check for $250.00 in payment for May rent." (a) In what book of original entry will this transaction be recorded? (b) What class of expense is affected?

13. "Received from L. M. Atkins check for $126.25, collection of his 60-day note for $125.00 and interest." (a) In what book of original entry will this transaction be recorded? (b) What class of income is affected?

14. "Gave L. J. Hunt a 60-day 6% interest-bearing note for $206.50 in settlement of past due account, $204.00, and interest, $2.50." (a) In what book of original entry will this transaction be recorded? (b) What accounts are debited and credited? (c) What class of liabilities is affected? (d) What class of expense?

Exercise 132, Classifying and Arranging Accounts

The account titles required to record the transactions completed by Moore Brothers, a partnership owned and operated by A. B. Moore and C. T. Moore are as follows:

Shipping Room Equipment	Notes Payable	C. T. Moore, Capital
Accounts Receivable	Purchases	Misc. Selling Expense
Shipping Supplies	Advertising Expense	Purchases Discount
Dep. Res. for Store Equip.	Advertising Material	Interest Income
Office Supplies	Interest Expense	Store Equipment
Sales	Office Equipment	Sales Discount
A. B. Moore, Capital	Petty Cash	Notes Receivable
Freight In	Sales Ret. and Allow.	Prepaid Insurance
Office Salaries	A. B. Moore, Drawing	Pur. Ret. and Allow.
Cash	Sales Salaries	C. T. Moore, Drawing
Merchandise Inventory		Accounts Payable

Instructions. (1) Copy these account titles and arrange them in the order of current assets, deferred charges, fixed assets, liabilities, capital, income, costs and expenses.

(2) Indicate at the right of each account whether it usually shows a debit or a credit balance by writing the word "Dr." or "Cr." on a line with it.

Exercise 133, Classified Reports

D. C. Bauer and L. A. Smith are equal partners in the Quick Service Plumbing Shop. They buy plumbing fixtures, install them and bill the customer at the agreed price which includes the material costs and labor. At the beginning of the fiscal period, March 1, the property and property rights of the partnership expressed in equation form were:

ASSETS $4,371.50 – LIABILITIES $2,371.50 = PROPRIETORSHIP $2,000.00

The Trial Balance at the left shows the account balances in the ledger as a result of the transactions completed during the month of March. It is desired to ascertain the property and property rights of the partners at the close of the business, March 31, which ends the monthly fiscal period. Since labor costs are included in the selling prices of the plumbing fixtures, the labor costs will reduce the gross profit on sales.

QUICK SERVICE PLUMBING SHOP
TRIAL BALANCE, March 31, 192

Cash	525	20		
Notes Receivable	350	—		
Accounts Receivable	1275	75		
Reserve for Bad Debts			14	50
Plumbing Material Inventory	385	60		
Office Supplies	50	60		
Delivery Supplies	28	80		
Prepaid Insurance	105	40		
Stock Room Equipment	426	30		
Res. for Dep. of Stock Room Equip.			59	65
Delivery Equipment	1100	—		
Reserve for Depr. of Del. Equip.			112	15
Notes Payable			424	70
Accounts Payable			275	90
D. C. Bauer, Capital			1500	—
L. A. Smith, Capital			1500	—
Sales			2378	98
Sales Ret. and Allow.	16	50		
Purchases	662	35		
Purchases Ret. and Allow.			18	30
Freight In	28	35		
Labor	510	75		
Delivery Expense	70	74		
Office Salaries	150	—		
Partners Salaries	300	—		
Rent	150	—		
Miscellaneous General Expense	148	80		
Purchases Discount			24	52
Interest Income			3	10
Sales Discount	18	47		
Interest Expense	8	19		
	6311	80	6311	80

The inventories are as follows: plumbing material, $542.50; office supplies $18.75; delivery supplies, $9.10.

Expired insurance: on plumbing material, $6.20; on delivery equipment, $11.50; on stock room equipment, $3.70. Accrued interest income, $1.75; interest paid in advance, $4.18. Reserve, for bad debts, $25.52, which is 2% of the Accounts Receivable. Annual depreciation on stock room equipment, 10%; and delivery equipment, 20%.

Instructions. (1) Prepare a Working Sheet, Balance Sheet, Profit and Loss Statement, and the adjusting and closing entries.

(2) State the classification of each account in the Adjusted Trial Balance columns of the Working Sheet which you prepared.

CHAPTER XXX

CONSIGNMENTS

The method of recording the transfer of merchandise when it is sold for cash or on credit, and the title passes from the seller to the buyer, has been discussed in preceding chapters. Merchandise is sometimes transferred, however, without there being a change in ownership. The discussion in this chapter relates to the method of recording such transactions.

A Consignment is merchandise placed by the owner with another to be sold for the owner. The owner is known as the *consignor* and the one with whom the merchandise is placed as the *consignee.* The title remains vested in the consignor until the merchandise is sold by the consignee. Merchandise received by the consignee from the consignor is referred to by him as a *consignment in* and the same merchandise by the consignor as a *consignment out.* The merchant who sells merchandise as a consignee is known as a *commission merchant.*

The Relation of the Consignor and Consignee is that of principal and agent. The agent must follow the instructions of the principal in regard to the sale of consigned merchandise which belongs to the principal; in the absence of any specific agreement, the agent is required to follow the usual trade customs applicable to the line of business in which he is engaged. The consignor is responsible to the consignee for all expenses incurred by the consignee in connection with the consignment. The consignee is responsible to the consignor for all merchandise sold by him. The consignee must take the same care of the consigned merchandise as he does of his own merchandise.

Reason for Consignments. The prime purpose of consignments is to sell merchandise. The consignment plan of selling is used whenever the consignor believes it will be to his advantage to retain title until the merchandise is sold or whenever the dealers will not handle his goods on any other terms.

Live stock, cotton, fruit, vegetables, poultry and eggs are examples of the classes of merchandise usually sold through the consignment plan of selling. This plan is also applicable to the marketing of a new product which is unknown to the public. The manufacturer places his product with dealers on consignment. The consignor retains title to the consigned goods until sold by the consignee; the consignee does not pay for the goods until sold.

Transactions Completed by the Consignor. From the point of view of the consignor, merchandise placed on consignment is only a transfer of his own merchandise from one place to another, hence, no transaction is completed. The only record required of the transfer is to provide information regarding the location of the merchandise. This information may be provided through retaining a copy of the list of merchandise sent to the consignee.

This list may be made on a regular invoice or on a form known as an *invoice of shipment.* The original of the invoice of shipment is sent to the consignee and a copy retained by the consignor.

A report of the merchandise sold by the consignee, is to the consignor a transaction. This report is usually on a printed form known as an *account sales.* Information recorded on this form includes the sales made by the consignee, the expenses incurred, and the amount due the consignor, referred to as the *net proceeds.*

When cash is received from the consignee for the net proceeds shown by the account sales, the transaction results in an increase in the asset cash for the amount of the cash and an increase in the income, usually referred to as *consignment sales,* for the same amount. The transaction is recorded in the cash book as a debit to the Cash account and a credit to an account with the title *Consignmeni Sales.* If desired, the Sales account may be credited.

When an account sales is received and a check does not accompany it, the transaction results in an increase in the asset accounts receivable and an increase in the income consignment sales for the net proceeds shown on the account sales.

June 30. The Southern Fruit and Vegetable Company consigned to Thompson and Strong, two hundred crates of berries.

The invoice of shipment in the illustration below was prepared in duplicate. The original, shown in the illustration, was mailed to Thompson and Strong, the consignee, and the duplicate retained by the Southern Fruit and Vegetable Company, the consignor. This duplicate contains the desired information regarding the location of the berries.

Invoice of Shipment.

No. 716 ATLANTA, GA. June 30, 19

Invoice of Berries

Shipped via L. & N. R. R. *Consigned to* Thompson & Strong

Cincinnati, Ohio *to be sold for account and risk of*

Southern Fruit & Veg. Co., *Consignors.*

	200	crates Berries	1.95	390	00	

Illustration 69, Invoice of Shipment

When the merchandise consigned is listed on an invoice, it is customary to use an invoice printed on a different color paper than that used for sales of merchandise.

July 6. The Southern Fruit and Vegetable Company received from Thompson and Strong, a check for $511.88, and an account sales showing the net proceeds resulting from the sale of the berries described as consignment No. 716.

The illustration below shows the account sales; the check is not illustrated because the form is the same as in previous illustrations.

ACCOUNT SALES

CINCINNATI, OHIO July 5 19

M. Southern Fruit & Vegetable Co. Address Atlanta, Ga.

Below please find account sales of 200 crates Berries

Sold by THOMPSON & STRONG, *Commission Merchants*

Received July 2 19 *and sold for account of* yourselves

DATE	CHARGES	FOLIO	AMOUNT	DATE	SALES	FOLIO	AMOUNT
July 2	Freight	C3	48 62	July 2	50 crates at 3.25	S1	162 50
5	Drayage	J1	10 00	2	50 " " 3.25	S1	162 50
	Returns			3	100 " " 3.20	S2	320 00
	"						
	Advances						
	"						
5	Storage	J1	10 00				
	Insurance						
5	Commission	J1	64 50				
5	Net Proceeds	C3	511 88				
			645 00				645 00

Illustration 70, Account Sales

The Southern Fruit and Vegetable Company placed the two hundred crates of berries with Thompson and Strong because it wished to retain title to the berries until sold, hence, a check for $511.88 is to this firm, the selling price of the berries. For this reason the only entry required is to record the cash and the sale.

The entry in the illustration below shows the method of recording this sale in the cash book.

CASH

Date		L. F.	Account Credited	Explanation	Amount
19 July	6		Consignment Sales	Net Proceeds No. 716	511 88

The account with Consignment Sales is credited to distinguish between merchandise sold on other plans from that sold on consignment. Unless it is desired to make this distinction, the Sales account is credited.

Accounts with Each Consignment Out. Usually it is not necessary that the consignor maintain a separate account with each consignment because the copy of the invoice of shipment contains full information in regard to the consignment. When the nature of the merchandise is such that it is advisable for the consignor to pay the freight, or if the arrangement with the consignee requires remittances from time to time instead of in one amount, it will be necessary to maintain separate accounts for each consignment. The title of each account is the name and address of the consignee and "Consignment Out No....".

When separate accounts are maintained with each consignment out, the usual transactions affecting this account are the debits for transportation charges paid at the time the consignment is made and credits for remittances to apply on account of sales. When the account sales is received, the balance of this account is adjusted so that it will show the net sales and is transferred to the Consignment Sales or Sales account.

Inventory of Consignment Out. Merchandise in the hands of a consignee is one of the assets of the consignor, the same as merchandise in his store room. The value of the merchandise on consignment is ascertained from the shipping invoice and the cost price. The value of all merchandise on consignment is usually shown on the Balance Sheet separate from the inventory value of merchandise in stock. Thus, if at the close of a fiscal period, the Southern Fruit and Vegetable Company had merchandise in stock to the value of $66,251.50 and merchandise on consignment in the hands of consignees, $16,408.75, this information would be shown on the Balance Sheet as in the illustration at the right.

Merchandise Inventory	$66,251.50
Consigned Merchandise	16,408.75

Transactions Completed by the Consignee. The purpose of the consignment plan of selling is to secure sales. These sales are secured by the consignee with whom the merchandise is placed on consignment, hence, the greater part of the transactions completed by him relate to the sale of the consigned goods.

When the consignor does not pay the transportation costs, these will be paid by the consignee. When the consigned merchandise has been sold by the consignee, he will report the sales to the consignor. For the reason stated, the transactions completed by the consignee will usually be: (1) payment of transportation charges, (2) payment of other expenses relating to the consigned goods, (3) sales of consigned goods, and (4) report of sales to the consignor.

Inventory of Consignment In. Consigned merchandise in the hands of the consignee is not one of the assets of the consignee because the merchandise belongs to the consignor. For this reason, the inventory of con-

signed merchandise at the close of the fiscal period is not shown on the Balance Sheet of the consignee.

The transactions stated below were completed by Thompson & Strong, the consignee, in connection with the consignment of berries referred to in the invoice of shipment and account sales, Illustrations 69 and 70. The transactions completed include the four types mentioned at the bottom of page 364.

July 2. Paid freight on Consignment No. 716, $48.62.
July 2. Paid drayage on Consignment No. 716, $10.00.
July 3. Sold Harns Grocery Company, on credit, one hundred crates of berries from Consignment No. 716 at $3.20.
July 5. Sold for cash, one hundred crates of berries from Consignment No. 716 at $3.25.
July 5. Rendered an account sales for Consignment No. 716, storage, 5c per crate and commission 10% of sales, net proceeds, $511.88.

The entry to record the cash received July 5 is:

CASH Receipts

Date	L. F.	Account Credited	Explanation	Amount
19 July 5	366	Consignment No. 716	Cash Sales	325 —

The entries to record the cash payments July 2 and 5 are:

CASH Payments

Date	L. F.	Account Debited	Explanation	Amount
19 July 2	366	Consignment No. 716	Freight	48 62
2	366	Consignment No. 716	Drayage	10 —
5	366	Consignment No. 716	Net Proceeds	511 88

The entries to record the transactions of July 3 and 5 are in the illustration at the right. The charge customer is debited in the first entry for the amount of the sale and Consignment No. 716 credited. Consignment No. 716 is debited in the second entry and Storage Income and Commission Income accounts credited for the storage and commission; these credits record the income earned because of storage and commission.

July 3, 19

366	Harms Grocery Company . . .	320 —	
366	Consignment No. 716		320 —
	Sold for credit 100 crates of berries at $3.20.		
	5		
366	Consignment No. 716	74 50	
366	Storage Income		10 —
366	Commission Income		64 50
	Rendered account sales, storage 5c, com. 10%.		

The accounts in the illustration at the left show the posting of the cash book and general journal on page 362. The Consignment In account is in balance because the consignor has been paid in full. The account with the charge customer shows his indebtedness because of the sale to him on credit. The credit balances of the Storage Income and Commission Income accounts show income for the consignee. The consignee is not responsible to the consignor until the goods are sold.

CONSIGNMENT IN No. 716

19						19					
July	2	C	365	48	62	July	3	J	365	320	—
	2	C	365	10	—		5	C	365	325	—
	5	C	365	511	88						
	5	J	365	74	50						
				645	—					645	—

HARNS GROCERY COMPANY, City

19					
July	3	J	365	320	—

STORAGE INCOME

						19					
						July	5	J	365	10	—

COMMISSION INCOME

						19					
						July	5	J	365	64	50

Exercise 134, Consignments

(ORAL OR WRITTEN)

1. May 28. L. J. Frank received from the Central Fruit Co. a consignment of fruit to be sold on their account and risk. Who is (a) the consignee? (b) the consignor? Who will prepare (c) the shipping invoice? (d) the account sales? On whose ledger will the account appear (e) as a consignment in? (f) as a consignment out?

2. The Central Fruit Co. paid $21.50 freight charges on the fruit consigned to L. J. Frank. How will this transaction be recorded?

3. L. J. Frank, Question 2, paid $2.50 drayage on the fruit received from the Central Fruit Co. How will this transaction be recorded by the bookkeeper for L. J. Frank?

4. "Sent Johnson Bros. check for $450.00, proceeds of consignment in No. 78, less $15.00 storage, and $28.00 commission." (a) What entry is required to record the storage and commission? (b) What entry is required to record the check?

5. August 17. The Cooperative Book Shop received 2 doz. books described as stock No. 87 to be sold for the publisher on a commission basis. The Cooperative Book Shop paid $2.75 express. How will this transaction be recorded?

6. September 5. The Cooperative Book Shop received $12.00 cash for four of the books to be sold on consignment. What entry is required to record this transaction?

7. September 5. The Cooperative Book Shop sold A. C. Crowe, a charge customer, two of the consigned books at $3.00 per copy, terms 30 days. What entry is required to record this transaction?

8. The Consignment In account shows a debit balance of $42.90. Is this an asset or expense?

9. The credit balance of the Consignment Out account is $451.80. Is this a liability or income?

10. The Consignment Sales account shows a credit balance of $1,450.00. Is this a liability or an income?

Exercise 135, Consignments

Record, in the general journal, the following transactions completed by L. B. Frazier, a commission merchant:

May 16. Received from C. H. Foster, 25 cases, 750 dozen eggs, to be sold on consignment, commission 10% of the sales. Paid the Marsh Truck Company $2.50 transportation charges on the eggs.

May 17. Received $10.50 for one case, 30 dozen eggs, belonging to C. H. Foster.

May 18. Sold Atkins Hotel, terms 30 days, 10 cases, 300 dozen eggs, belonging to C. H. Foster, at 34c per dozen.

May 19. Received $96.00 for 10 cases, 300 dozen eggs, belonging to C. H. Foster at 32c.

May 20. Sold the Hill Grocery Company, terms 20 days, four cases, 120 dozen eggs, belonging to C. H. Foster at 31c per dozen.

May 20. Rendered an account sales to C. H. Foster, and sent check for $212.38, net proceeds, after deducting the drayage, commission and 25c per case storage.

The Consignment In Account as a Controlling Account. When the commission merchant carries in stock merchandise belonging to a number of different consignments, it is customary to maintain accounts with each consignment in a subsidiary ledger known as the "Consignment Ledger" and control the account balances in this ledger through the Consignment In account in the general ledger. When this plan is followed, it is necessary to provide special columns in the general journal, sales journal and on the payment side of the cash book in which to record amounts to be posted to the consignment ledger. The suggested rulings for the books of original entry are illustrated and briefly described in the following paragraphs.

The Sales Journal in the illustration below provides for both accounts receivable and consignment controls on the ledger of the consignee. Space is provided for a description of consigned goods because this information is needed when posting to the consignment ledger.

SALES JOURNAL

DATE	L. F.	SALE NO.	NAME AND ADDRESS	CONS. No.	DESCRIPTION OF CONSIGNMENT SALES	ACCTS. REC. DR.	CONS. SALES CR.	SALES CR.

The General Journal in the illustration below provides for accounts receivable and consignment controls as required in connection with the sales journal illustrated on page 367. The ruling is similar to the general journal when accounts receivable and accounts payable controls are maintained.

GENERAL JOURNAL

	L. F.	ACCOUNTS AND EXPLANATION	GEN. LEDGER DR.	GEN. LEDGER CR.	CONS. IN DR.	ACCTS. REC. CR.

The Cash Receipts Journal in the illustration below provides for accounts receivable and consignment controls. A column is provided for cash sales because if consigned goods are sold for cash, it is evident that merchandise will also be sold for cash. The description of consigned goods sold for cash may be recorded in the explanation column; this information is needed when posting to the consignment ledger.

CASH RECEIPTS JOURNAL

DATE	L. F.	NAME OF ACCOUNT	EXPLANATION	ACCTS. REC. CR.	CONS. IN CR.	SALES CR.	GEN. LEDGER CR.	CASH DR.

The Cash Payments Journal in the illustration below provides for accounts payable and consignment controls. An additional column is provided for cash purchases; this will not be required when all purchases are for credit.

CASH PAYMENTS JOURNAL

DATE	L. F.	NAME OF ACCOUNT	EXPLANATION	GEN. LEDGER DR.	PUR. DISCT.	CONS. IN DR.	PURCHASES DR.	CASH CR.

Ledgers. The general ledger contains all accounts required to provide the needed information regarding the operations of the business, except those with consignments and accounts receivable. The accounts with each consignment are maintained in the consignment ledger and with charge customers in the accounts receivable ledger.

The ruling of all the ledgers may be the usual ledger ruling or any special ruling desired. The ruling of the consignment ledger is usually the same as that of the account sales, page 363. The record in each consignment account is made in duplicate when posting, through the use of carbon paper. When all the merchandise belonging to the consignment has been sold and the charges for commission and other expenses recorded, the duplicate of the account in the consignment ledger is removed and mailed to the consignor.

Petty Cash Fund. It is customary in business to deposit in the bank all money received and make payment by check. With this plan the cash

receipts as recorded on the receipts side of the cash book will always agree with the total deposits, and the cash payments as recorded on the payments side of the cash book will always agree with the canceled checks after the bank statement has been reconciled at the close of each month.

When the plan suggested in the preceding paragraph is followed, it is necessary to provide a fund from which to make small payments of cash, since it would not be convenient to pay these by check. The fund provided for this purpose is usually referred to as the *petty cash fund.*

When a petty cash fund is provided, it is customary to pay all large amounts, usually those in excess of $5.00, by check and small amounts, those less than $5.00, with currency out of the petty cash fund. The currency provided in the petty cash fund is kept in a drawer of the safe so that it will be available for making these small payments.

Records for Petty Cash Fund. The petty cash fund is established by withdrawing from the bank by check the required amount to provide for this fund, usually $25.00 or $50.00. The check is recorded on the payments side of the general cash book as a debit to the Petty Cash Fund. This check is also recorded in the *petty cash book* which is provided for a record of the transactions with the petty cash fund.

When cash is paid from the petty cash fund, the amount is recorded in the petty cash book as a debit to the appropriate expense account and a credit to the Petty Cash Fund. When the fund is exhausted or very nearly exhausted, it is renewed by a check for an amount equal to the total payments from the petty cash. Thus, if the established fund is $25.00 and the expenditures are $22.50, the check to renew the fund will be for $22.50.

The entries in the petty cash book are not posted to the general ledger from the petty cash book but through an entry in the general cash book. This entry is made from the stub of a check issued to renew the petty cash fund. A summary of the classified expenses affected as recorded in the petty cash book is entered on the stub of the check issued to renew the petty cash fund.

The entry in the illustration below is to record the establishment of a petty cash fund, January 2, of $25.00.

January, 19 — CASH — PAYMENTS

DATE	L. F.	NAME OF ACCOUNT	EXPLANATION	GENERAL LEDGER DR.	PUR. DISCT CR.	CONSIGN DR.	PURCHASES DR.	CASH CR.
2		Petty Cash	Check No 326	25—				25—

The check is cashed at the bank and the cash in the various denominations placed in the safe. The amount is entered in the general ledger column, hence, should be posted to the debit of the account written on the same line with it.

Illustration 71, page 370, shows the petty cash book, January 29, at which time the amount of petty cash on hand is only $2.25. The petty cash book is ruled, the balance carried down, and a check issued for $22.75 to renew the fund.

Petty Cash Book

DATE		ACCOUNT DEBITED	EXPLANATION	DISBURSEMENTS	RECEIPTS
19					
Jan.	2	Check No. 326			25 —
	5	Office Salary	A. L. Day, one day extra	5 —	
	9	Purchases	15 doz. Eggs at 30¢	4 50	
	16	Advertising Expense	R. C. Council program	2 —	
	18	Const. No. 276	Express charges	4 50	
	20	Store Supplies	25 lbs. Twine at 15¢	3 75	
	22	Advertising Expense	Central Church program	1 50	
	29	Store Supplies	10 lbs. Wrapping Paper at 5¢	1 50	
				2 75	
	29	Balance			
				25 —	25 —
Jan.	29	Balance			2 25
	29	Check No. 401			22 75

Illustration 71, Petty Cash Book

The fund is renewed and the entries to record the payments are recorded in the cash book as follows:

January, 19 — CASH — PAYMENTS

DATE	L. F	NAME OF ACCOUNT	EXPLANATION	GENERAL LEDGER DR.	PUR DISCT. CR.	CONSIGN DR.	PURCHASES DR.	CASH CR.
2		Petty Cash	Check No. 326	25 —				25 —
2		Rent	Check No. 327	150 —				150 —
29		Purchases	Check No. 401				4 50	
29		Office Salary	" " "	5 —				
29		Advertising Expense	" " "	3 50				
29		Cons. Inv. No. 276	" " "			4 50		
29		Store Supplies	" " "	5 25				22 75

The cash book illustrated in connection with the petty cash fund is the same as that in a previous illustration in this chapter. Since the petty cash fund may be established in any business, the method of recording checks issued to establish this fund will depend entirely upon the columns on the payment side of the cash book.

SUMMARY

Consignments. The purpose of a consignment is to sell merchandise. The consignor owns the goods which are to be sold and the consignee agrees to sell them on a commission basis. The consignor refers to the merchandise consigned by him as a consignment out; the consignee refers to this same merchandise as a consignment in.

The Consignment In Account is a record of the transactions which the consignee has with the consignor because of consignments received; separate accounts are usually kept for each consignment. Each Consignment In account is *debited* for expenses, remittances to the consignor, commission and other charges, and *credited* with the sales of the consigned goods.

A *debit* balance of this account is an asset because it represents the amount to be collected from the consignor; a *credit* balance is a liability because it represents the amount to be paid to the consignor.

The Consignment Out Account is a record of the expenditures by the consignor because of consigned merchandise. This account is *debited* for prepaid transportation charges and drayage, and *credited* for the net proceeds when reported by the consignee. A credit balance in this account is an income usually transferred to the Consignment Sales or the Sales account.

The Consignment Sales Account is a record of the consignment sales by the consignor. It is the net proceeds of the consignments received from the consignee less the prepaid transportation charges or other expenses prepaid by the consignor. This account is *credited* for the net proceeds of each consignment out. The *credit* balance at the close of the fiscal period is an income and is closed into the Profit and Loss Summary account.

The Commission Income Account shows a record of the commission earned because of goods sold on consignment; it appears only on the books of the consignee and records his profit on sales of consigned goods. This account is *credited* for commission on consigned goods sold. The *credit* balance is an income and is closed into the Profit and Loss Summary account.

The Petty Cash Book contains a record of the payments made from the petty cash fund. It is supplementary to the general cash book, the transactions recorded in it being recorded in total in the general cash book.

Exercise 136, Consignments

March 31. The Arnold Department Store received from the Electric Appliance Co. one dozen Eureka washing machines to be sold on consignment at $125.00 each, sales to be reported quarterly beginning July 1. Paid $2.50 drayage; the freight was prepaid.

April 5. Received $125.00 cash for sale of 1 Eureka washing machine.

April 16. Sold Mrs. A. C. Howard 1 Eureka washing machine for $125.00. Received cash $25.00, balance to be paid $25.00 per month beginning May 1.

May 1. Received permission from the Electric Appliance Co. to debit their account with $5.00 paid for repairing the washer sold Mrs. Howard.

June 16. Received $125.00 cash for 1 Eureka washing machine.

June 20. Sold Crescent Laundry 2 Eureka washing machines at $125.00 each. Received cash $100.00 and two 6% interest-bearing notes for $75.00 each, due in 60 and 90 days respectively.

July 1. Rendered account sales to the Electric Appliance Co., storage charges $1.00 on each machine sold, commission 10% of sales. Sent check for the net proceeds.

Instructions. (1) Record all of these transactions in the general journal and post, allowing eight lines each for Cash and Consignment In accounts and five lines for each of the other accounts.

(2) Take a Trial Balance.

Exercise 137, Classified Reports

The Trial Balance at the right shows the account balances in the ledger as the result of transactions completed during the month of December. It is desired to ascertain the proprietorship December 31 and the net profit for the December monthly fiscal period.

The inventories, accruals, and reserves are as follows: Merchandise, $1,824.16; Consigned Toys on Hand, $521.60; Office Supplies, $12.25; Store Supplies, $36.50; Expired Insurance: on merchandise $22.25, store equipment $6.25, delivery equipment $14.75; Prepaid Interest on Notes Payable, $6.50; Accrued Interest on Notes Receivable, $4.50; Accrued Interest on Notes Payable, $8.75. Accrued Salaries: Sales Clerks, $21.50, Drivers Wages, $9.50, Office Salaries, $32.50. Annual Depreciation on Store Equipment, 10%; Annual Depreciation on Delivery Equipment, 25%; Reserve for Bad Debts, $12.63, which is ½ of 1% of Sales.

THE TOY SHOP
TRIAL BALANCE, December 31, 192..

Cash	3929	37		
Notes Receivable	600	—		
Accounts Receivable	1252	30		
Merchandise Inventory	1062	40		
Office Supplies	27	50		
Store Supplies	42	50		
Prepaid Insurance	180	—		
Store Equipment	538	75		
Dep. Reserve for Store Equip.			61	40
Delivery Equipment	1230	—		
Dep. Reserve for Del. Equip.			241	80
Notes Payable			1500	—
Accounts Payable			1327	45
Consignments In			721	80
L. J. Banks, Capital			2750	—
O. C. Rudd, Capital			2750	—
Sales			2526	50
Sales Returns and Allow.	13	50		
Purchases	1843	35		
Purchases Returns and Allow.			24	75
Freight In	83	40		
Commission Income			206	50
Sales Clerks Salaries	280	—		
Drivers Wages	112	50		
Miscellaneous Selling Expense	12	75		
Rent	200	—		
Partners Salaries	400	—		
Office Salaries	240	—		
Miscellaneous Office Expense	69	50		
Purchases Discount			29	70
Interest Income			12	40
Sales Discount	15	28		
Interest Expense	19	20		
	12152	30	12152	30

Instructions: (1) Ascertain the present proprietorship and net profit through a Working Sheet.

(2) Prepare the Balance Sheet and Profit and Loss Statement.

(3) Prepare the adjusting and closing entries.

CHAPTER XXXI

ORGANIZATION OF A CORPORATION

Assets are needed in the operations of a business. The title to these assets may be vested in (a) one individual, (b) two or more individuals under a partnership agreement or (c) in a corporation. The ownership of the assets by an individual and by partners was discussed in preceding chapters. The discussion in this chapter relates to the ownership of assets invested in a business by three or more persons authorized by law to operate as a corporation.

Corporation. The Supreme Court of the United States has defined a corporation as "an association of individuals united for some common purpose and permitted by the law to use a common name, and to change its members without dissolution of the association." This means that the corporation is an artificial person created by law for the purpose of operating a business. When brought into existence by law, the corporation has the privileges which the law gives it, usually the same as for any citizen governed by the same law and engaged in a business of like nature.

Purpose of a Corporation. A corporation is organized to operate a specific business in the same manner as a similar business would be operated by a sole proprietorship or a partnership. The required assets in both the partnership and corporation are secured through the combined investment of more than one investor; at least three investors are required in the formation of a corporation.

The corporate form of organization is preferable to the partnership in that it (a) limits the liability of each investor for the debts of the corporation, (b) permits many investors, and (c) allows each investor to transfer his proprietary interest in the corporation without affecting its operations. In a partnership, each partner is liable for all the debts of the partnership, and a partner cannot retire from the partnership without the consent of the remaining partner or partners.

Organization of a Corporation. The law which grants the right to incorporate a business also provides for the method of incorporation. Those who wish to combine their assets and operate a business as a corporation must comply with this law in order to form the corporation. When the investors have complied with the law and their request has been granted, they are authorized to operate the business as a corporation. This legal right is granted through a certificate of incorporation usually known as a *charter*.

The following quotation from the Statute of Illinois sets forth the procedure required in that state for securing a charter:

"A corporation may be formed for any lawful purpose (except banking, insurance, real estate brokerage, operation of railroads, and loaning money), whenever three or more persons, citizens of the United States, at least one of whom shall be a citizen of Illinois, shall sign, seal, and acknowledge a statement of incorporation setting forth:

(1) Names and post office addresses of the incorporators.
(2) Name of the proposed corporation.
(3) A clear and definite statement of the object or objects for which it is formed.
(4) The period of duration.
(5) Location of the principal office in this State, giving town or city, street and number, if any.
(6) Number of shares into which the capital stock is to be divided, whether all or part of same shall have par value, and if so, the par value thereof, which shall not be less than $5.00 nor more than $100.00 a share, and whether all or part of the same shall have no par value, and if there is to be more than one class of stock created, a description of different classes, number of shares of each, and relative rights, interests and preferences each class shall represent.
(7) Names and addresses (give street and number) of the original subscribers to the capital stock and amount subscribed by each.
(8) Total amount of authorized capital stock.
(9) Amount of such stock it is proposed to issue at once (which shall not be less than $1,000.00).
(10) The payment of at least one-half of the capital stock having a par value and of not less than $5.00 per share for each share of capital stock having no par value, which it is proposed to issue at once, with a description of the nature and value of the property, if any, paid for such capital stock.
(11) Number, names, and post office addresses of directors by street and number, at least one of whom shall be a resident of this State, and the term for which elected.
(12) Any other provisions not inconsistent with law, for the regulation of the business and the conduct of affairs of the corporation, and any provisions creating, defining, limiting, and regulating the powers of the corporation, the directors and the stockholders, or any class or classes of stockholders."

Charter. The certificate signed by the incorporators containing the requirements specified by the law is referred to as a *charter*, after it has been approved by the proper state officials. In other words, the charter is the written authority granted the investors to operate the business as a corporation. Illustration 72 on page 375 shows a charter granted under Tennessee law.

CHARTER OF INCORPORATION

Be it known

That J. C. Wilson, Memphis, J. W. Jones, Nashville, R. L. Wood, Athens, E. E. Miller, Clinton, and W. S. Shields, Bristol, all more than twenty-one years old, are hereby constituted a body politic, and corporated by the name and style of the Union Printing and Publishing Company, with a capital stock of Fifty Thousand Dollars ($50,000.00), consisting of 500 shares, par value $100 per share.

The general powers of said corporation are:

1. To sue and be sued by the corporate name.

2. To have and to use a common seal, which it may alter at pleasure; if no common seal, then the signing of the name of the corporation by any duly authorized officer shall be legal and binding.

3. To purchase and hold, or receive by gift, any addition to the personal property owned by said corporation, any real estate necessary for the transaction of the corporate business, and also to purchase and accept any real estate in payment or part payment of any debt due to the corporation, and sell realty for corporation purposes.

4. To establish by-laws and make all rules and regulations, not inconsistent with the laws and constitutions, deemed expedient for the management of corporate affairs.

5. To appoint such subordinate officers and agents, in addition to the President, Secretary, and Treasurer, as the business of the corporation may require.

6. To designate the name of the office, and fix the compensation of the officers.

7. To borrow money and issue notes or bonds upon the face of the corporate property, and also to execute a mortgage or mortgages as further security for the repayment of money thus borrowed.

The following provisions and restrictions are coupled with said grant of powers:

1. A failure to elect officers at the proper time does not dissolve the corporation, but those in office hold until election, or appointment and qualification of their successors.

2 The term of all offices may be fixed by the by-laws of the corporation; the same, however, not to exceed two years.

3. The corporation may, by by-laws, make regulations concerning the subscription for, or transfer of stock; fix upon the amount of capital to be invested in the enterprise; the time required for the payment thereof by the subscribers to the stock; the amount to be called in at one time. The right of action should exist in a corporation to sue a defaulting stockholder for the failure to pay for stock subscribed to, when called upon to do so.

4. The corporation shall have power to purchase type, presses, paper, etc., for the purpose of printing newspapers, books, pamphlets, etc., and in general, to execute all orders for printing books, and the execution of all orders for job work usually undertaken and performed in first-class printing and publishing associations.

5. The board of directors shall consist of five or more members at the option of the corporation, to be elected either in person or by proxy by the majority of the votes cast, each share representing one vote.

6. A majority of the board of directors shall constitute a quorum, and shall fill all vacancies until next election. The first board of directors shall consist of five or more incorporators who shall apply for, and obtain the charter.

7. The books of the corporation shall show the original and subsequent stockholders, their respective interests, the amount which has been paid on the shares subscribed, the transfer of stock, and other transactions in which it is presumed the stockholders or creditors may have an interest.

8. By no implication or construction shall the corporation be deemed to possess any powers, except those hereby expressly given or necessarily implied from the nature of the business for which the charter is applied.

We, the undersigned, apply in the State of Tennessee, by virtue of the law of the land, for a charter of incorporation for the purpose of, and with the powers declared in the foregoing instrument.

Witness our hand, August 16, 1928.

(Signatures of the Five Incorporators)

Illustration 72, Charter

When the charter is granted, the corporation comes into existence and remains in existence until the expiration of the time fixed by law or stated in the charter or until dissolved by legal procedure.

The charter on page 375 authorizes the incorporators to operate a printing and publishing business under the corporate name Union Printing and Publishing Company. The information contained in the charter is arranged in two divisions with numbered paragraphs under each division. The general powers are stated in the seven paragraphs of the first division. These may be briefly described as follows:

(1) The right for the corporation to own assets and incur liabilities in the name of the Union Printing and Publishing Company. These rights are stated in Paragraphs 1, 2, 3 and 7.

(2) Authority of the investors, referred to as stockholders, to control the internal organization of the corporation. The rights granted the stockholders are set forth in Paragraphs 4, 5 and 6.

The general powers are restricted both for the protection of the creditors and stockholders. These restrictions are specified in the eight paragraphs of the second division. They may be briefly described as follows:

(1) Procedure in case the stockholders fail to elect officers.

(2) Limited time for the term of officers.

(3) Amount of the invested assets at the beginning of the business.

(4) Nature of the business to be operated by the corporation.

(5) Method of electing the board of directors and control of its actions.

(6) Records to provide information for stockholders and creditors.

Each stockholder is not provided with a copy of the charter. The original copy of the charter after it has been approved by the authorized state officials is filed in the office of the corporation for inspection by the stockholders.

Characteristics of a Corporation. From the foregoing information it will be observed that a corporation has the following characteristics:

(1) It is an artificial person created by law with the same legal privileges as an individual. It is given the same consideration in court as any citizen subject to the same law.

(2) The assets of the corporation are the combined assets invested by the three or more investors. The corporation has title to these assets in the same manner as an individual has title to assets.

(3) The assets of a corporation and their use in the operation of the business are controlled by the stockholders. This control is effected through the election by the stockholders of a board of directors, who in turn elect officers with authority to supervise the operation of the business.

(4) The charter states the authorized capital (capital stock) which is usually the amount invested by the stockholders. The law under which the cor-

poration is organized or the incorporators fix the amount of assets to be invested at the beginning of the business.

(5) The evidence of ownership in the corporation is divided into units or shares. The amount invested by each stockholder is usually the value of one or more shares. The value printed on a share of stock, except no par value stock, is referred to as its par value. The par value of the investment of each stockholder is referred to as his stock in the corporation.

(6) A stockholder usually has a vote for each share of stock he holds. The stockholder votes on the adoption of by-laws or amendments to the by-laws and in the election of the board of directors. The stockholder does not vote in the election of officers; the officers are elected by the board of directors.

(7) The charter does not include all of the rules and regulations required for the operations of the corporation. Those rules and regulations not included in the charter are in the by-laws which are approved by a majority vote of the stock, each stockholder having one vote for each share of stock owned by him.

(8) Each stockholder is an independent unit of the corporation and may transfer his stock to another without affecting the operation of the corporation.

(9) Only those stockholders authorized by the board of directors or officers have a right to bind the corporation by their actions.

(10) The corporation may continue operations indefinitely. When a time limit is stated in the charter, the law usually permits renewal of the charter at the expiration of this time. It is sometimes said "A corporation never dies."

Proprietorship in a Corporation. Proprietorship is the owner's equity in the assets (assets − liabilities) used in the operation of a business. The corporation is an artificial person created by law with the same privileges possessed by a natural person subject to the same laws; the corporation therefore has an equity or proprietorship in the assets invested by its stockholders. At the time a corporation is formed, its proprietorship or equity is the value of the assets invested. At any subsequent time the proprietorship may be more or less than at the beginning. If the business is operated at a profit, the equity in the assets will be greater than at the beginning; if operated at a loss, the equity will be less.

Stock Certificate. Each stockholder receives as evidence of his investment a certificate of stock executed by officers of the corporation. This certificate states the authorized capital stock of the corporation and the par value of the stockholder's investment stated in the number of shares and the par value of each; the exception is no par value stock as explained in a subsequent discussion. Each stockholder has the right to sell a part or all of his stock in the corporation. This sale does not change the corporate proprietorship but simply results in a change in the ownership of the stock certificate. One

who purchases stock in a corporation from a stockholder should have the stock transferred to his name on the books of the corporation, in order that he may receive any dividends declared by the board of directors. The certificate of stock and authority for transferring ownership are explained and illustrated in connection with the stock certificate book, page 404.

Classification of Stock. The sixth paragraph of the Illinois Statute on page 374, states: "If there is to be more than one class of stock created, a description of different classes, number of shares of each, etc."

These instructions indicate that more than one class of stock may be issued and that those who apply for a charter in Illinois must give specific information regarding the classes of stock. The usual classes of stock are:

(1) Common Stock
(2) Preferred Stock

The distinction between these two classes of stock is usually the method of sharing the profits during the operation of the corporation and the division of the assets at the time of its dissolution. The distribution of the profit among the stockholders is referred to as *dividends* and is authorized by the board of directors.

Common Stock. When no preference is given any stockholder, all the stock is said to be *common stock*. Each stockholder will receive the same amount of dividend per share of stock he owns. Thus, if the board of directors declares a dividend of 6%, the owner of a certificate of common stock, par value $100.00, will receive $6.00 for each share stated in the certificate.

Preferred Stock. When some stock is to receive a preference, the stock is known as *preferred stock*. The usual distinction between preferred stock and common stock is that each certificate of preferred stock states the amount of annual dividend the stockholder may receive, while no mention is made of dividends on the certificate of common stock. Thus, the statement "8% dividend" on a certificate of stock indicates that the owner will receive 8% of the par value of his stock each year, provided the earnings are sufficient to pay this and the board of directors declare the dividend. The dividend stated on a certificate of preferred stock may be qualified through the use of such terms as participating, non-participating, cumulative and non-cumulative.

The term, *participating*, on a certificate of preferred stock in connection with the stated dividends indicates that the holder may receive more than this amount as dividend. This additional dividend will be available to the preferred stockholders only when the profit distributed by the board of directors is sufficient to pay both the common and preferred stockholders a rate greater than that stated on the preferred stock certificate. Thus, if the preferred dividends are 8% and a dividend of 10% is declared available to all stockholders, the holders of preferred stock will receive 2% more than the amount stated on each preferred certificate.

The term, *non-participating*, printed on a certificate of stock in connection with the stated dividend indicates that the preferred stockholder will not participate in the profits beyond the stated rate of dividend. This means that the common stockholders may receive a greater dividend than the preferred stockholders.

The term, *cumulative*, in connection with the stated dividend on a certificate of stock indicates that the stockholder is entitled to this amount of dividend for each year. When the profits earned in one year are not sufficient to pay the stated dividends to holders of cumulative preferred stock, the deferred dividend must be paid out of the earnings of subsequent years before the common stockholders receive a dividend.

The term, *non-cumulative*, in connection with the stated dividend indicates that the stockholder will not receive this dividend unless it is earned and declared within the year.

There may be other qualifying terms used in connection with common and preferred stock. The nature of the preference or the qualification of the stock is printed on the certificate of stock and must be consistent with the laws under which the corporation is organized and the by-laws of the corporation.

No Par Value Stock. When the charter states the authorized capital stock as a maximum number of shares but does not state the value of the combined assets to be invested, the stock issued to each stockholder has no par value and is known as *no par value stock*. The incorporators will place a value on the stock at the time the corporation is organized and each stockholder must invest this amount for each share subscribed. The Illinois Statute (Paragraph 10, page 374) places the minimum value of no par value stock at $5.00 per share; the incorporators may place it at any amount in excess of this minimum price.

A no par value certificate of stock issued to a stockholder states the investment in number of shares without reference to the value of each share. This is true even though the state law places a minimum value on each share of no par value stock. The no par value certificate of stock also states the number of shares the corporation is authorized by its charter to issue; this permits a stockholder to determine his interest in the corporate proprietorship shown on the Balance Sheet.

The charter on page 375 authorizes par value stock because the par value of the investment and each share is stated in it. Had this charter stated "5,000 shares of no par value stock" the corporation would have had the authority to issue 5,000 shares and receive for each share any value that it might place upon it in excess of the minimum value fixed by the state. If the incorporators of the Union Printing and Publishing Company had placed a value of $10.00 on each share and all the shares were issued at the time the corporation was organized, the invested capital would have been $50,000.00.

Proprietary Interest of a Stockholder. Each stockholder is part owner of the corporate assets. The certificate of stock which he receives from the

corporation states the number of shares and par value of his investment in dollars and cents or states the number of shares only; par value stock states the number of shares and par value in dollars and cents, and no par value stock states the number of shares. The interest of the stockholder in the corporate proprietorship can be determined only from the facts stated in the certificate and a Balance Sheet which shows (a) the corporate proprietorship and (b) the number of shares that have been issued and are outstanding.

Values of Stock. A share of stock in a corporation may have three values as follows:

(1) Par value, that is the amount stated in the certificate; this applies only to par value stock.

(2) Book value, that is the interest in the corporate proprietorship according to the proprietorship accounts in the ledger. This may be more or less than the par value; it applies both to par value stock and stock issued without a par value.

(3) Market value, that is the price at which the stock may be sold, or the price quoted on a stock exchange. This value may be more or less than the par value or book value; it applies to both par value and no par value stock.

Liquidation Value. When a corporation discontinues business and cash is received for all the assets, each stockholder will have an interest in the cash remaining after the liabilities have been paid. This interest is referred to as the *liquidation value* of the stock. The liquidation value of a certificate will depend upon the class of stock and its participation in the assets of the corporation as stated on the certificate of stock.

Method of Showing Proprietorship on the Balance Sheet. Each stockholder receives a copy of the Balance Sheet. The information contained in the Balance Sheet should be such that he can ascertain his interest in the proprietorship of the corporation. The Balance Sheet in the illustration at the right shows the proprietorship in a corporation which is authorized to issue stock with a par value and the one in the illustration at the top of page 381, the proprietorship of a corporation authorized to issue no par value stock. In each Balance Sheet, the assets and liabilities are shown in one amount because the purpose of the illustrations is simply to show the method of reporting proprietorship. Unissued stock refers to the number of shares which

THE BOSWORTH CO.
BALANCE SHEET, JULY 1, 19...

TOTAL ASSETS		93,500 —
TOTAL LIABILITIES		22,700 —
PROPRIETORSHIP:		
Authorized Capital Stock	75,000 —	
Less Unissued Capital Stock	25,000 —	
Capital Stock Outstanding	50,000 —	
Surplus	20,800 —	
PROPRIETORSHIP		70,800 —

the corporation has not yet issued. As this does not represent the ownership of assets, that is, proprietorship, it is shown as a deduction from the number of shares the corporation is authorized to issue, in order that each stockholder may know the number of shares issued and outstanding. Surplus refers to accumulated profit available for dividends.

THE BOSWORTH CO.
BALANCE SHEET, July 1, 19...

TOTAL ASSETS		93,500 —
TOTAL LIABILITIES		22,700 —
PROPRIETORSHIP:		
Capital Stock—No Par Value:		
Authorized 750 shares		
Unissued 250 shares		
Outstanding 500 shares	50,000 —	
Surplus	20,800 —	
PROPRIETORSHIP		70,800 —

From either Balance Sheet, the book value of each share of stock may be determined as 1/500 of $70,800 or $141.60. The stockholder who owns a certificate of stock for 10 shares will have a proprietary interest of $1,416.00.

Exercise 138, Corporations

(ORAL OR WRITTEN)

1. The charter granted the incorporators of the Mason Mfg. Co. states: "With a capital stock of $100,000.00." One of the by-laws adopted by the stockholders at their first meeting states: "The par value of the capital stock is to be $100.00 per share." How many shares of stock will this corporation be authorized to issue?

2. The charter granted The Davis Company states: "With a capital of 5,000 shares of no par value stock." If all of this stock is sold at $60.00 per share and cash is received, state the proprietorship of the corporation, in equation form, at the time the corporation is ready to begin operation.

3. G. C. Craft invests $500.00 in a corporation organized under the corporate name "The Biltmore Hotel". He received as evidence of the investment a certificate of stock for 10 shares, par value $50.00 per share. He sells this certificate for $45.00 per share. (a) How much does he receive for it? (b) How much does he lose by this sale? (c) What effect does this sale have on the assets and proprietorship of the corporation? (d) Why?

4. The charter granted the Long Mercantile Company states: "With a capital of 10,000 shares of no par value stock." The incorporators fixed the price at $10.00 per share. When the corporation was organized 7,500 shares had been sold for cash. What was the capital of the corporation at the time of organization?

5. J. O. Bush owns five shares of 6% cumulative preferred stock in the Wall Dairy Company, par value, $100.00 per share. January 10, he received the dividend stated in the certificate. (a) What amount of dividend did he receive? (b) If the profits this year were not sufficient to pay the dividend, what amount should he receive next year?

6. January 2. The American Machine Tool Co. is incorporated with an authorized capital of 10,000 shares. 8,000 shares were sold for cash at the time the corporation was organized for $5.00 per share, the minimum price fixed by the state law under which the corporation is organized. State the proprietorship of the corporation in equation form at the time of organization.

7. December 31, at the close of the first year of operations, the proprietorship as shown by the Balance Sheet of the American Machine Tool Co. (Problem 6) stated in equation form is:

ASSETS $52,500.00 = LIABILITIES $6,900.00 + PROPRIETORSHIP $45,600.00

What was the book value of each share of stock issued and outstanding (a) if no stock was sold during the year? (b) if 500 additional shares were sold at $5.00 per share?

Exercise 139. Proprietorship in a Corporation

1. A stock certificate owned by L. G. Lawson states that he is the owner of 10 shares of stock in the Automobile Accessory Company with an authorized capital stock of $100,000.00, par value of each share $100.00. The proprietorship of the corporation on the Balance Sheet of December 31 is shown at the right. (a) What is his interest in the corporate proprietorship? (b) If the selling price of the stock as quoted by a local stock exchange is $127.00 per share, is its market value more or less than the book value? (c) How much?

Proprietorship:	
Capital Stock Authorized	$100,000.00
Unissued Capital Stock	25,000.00
Capital Stock Outstanding	75,000.00
Surplus	22,500.00
Total Proprietorship	$ 97,500.00

2. In June of the following year, L. G. Lawson (Problem 1) sold 5 shares of his stock in the Automobile Accessory Company for $135.50 per share. The Balance Sheet prepared the following December 31 showed unissued capital stock, $15,000.00, and total proprietorship, $126,400.00. (a) State the information on this Balance Sheet in the same form as the one illustrated above. (b) What is the book value of the 5 shares owned by L. G. Lawson as stated on this Balance Sheet?

3. O. L. Dean owns a certificate of stock for 100 shares in the Martin Grocery Company, a corporation. The proprietorship on the Balance Sheet is shown at the right. (a) What is the book value of his certificate? (b) If he paid $2,650.00 for this certificate, what is the increase or decrease per share?

Proprietorship:		
Capital Stock—No Par Value:		
Authorized	5,000 shares	
Unissued	1,000 shares	
Outstanding	4,000 shares	$ 96,400.00
Surplus		16,800.00
Total Proprietorship		$113,200.00

Exercise 140, Working Sheet and Reports

Walter Smith and L. C. Allen operate a retail grocery business as equal partners under the firm name of Allen & Smith. They desire to incorporate the business and three of their associates join with them in application for a charter which will authorize them to operate the business under the firm name of The Smith-Allen Grocery Company, with a capital stock of $120,000.00. Walter Smith and L. C. Allen each agree to take stock at par for their proprietary interest in the partnership. Each of the other subscribers agree to invest $5,000.00 in cash.

A Trial Balance prepared from the ledger of Allen & Smith at the close of the annual fiscal period, December 31, the day before the corporation is to be organized, is shown at the right.

ALLEN & SMITH
TRIAL BALANCE, December 31, 19...

Cash	15143	76		
Notes Receivable	5785	—		
Accounts Receivable	55388	26		
Reserve for Bad Debts			108	50
Merchandise Inventory	37054	38		
Office Supplies	1302	74		
Store Supplies	1618	30		
Prepaid Insurance	762	80		
Office Equipment	2800	—		
Dep. Reserve for Office Equip.			280	—
Store Equipment	8570	—		
Dep. Reserve for Store Equip.			1039	50
Notes Payable			14000	—
Accounts Payable			24328	11
Walter Smith, Capital			36557	52
L. C. Allen, Capital			36557	52
Sales			153826	49
Sales Ret. and Allow.	854	20		
Purchases	83765	43		
Freight In	7416	12		
Purchases Ret. and Allow.			472	51
Sales Salaries	20942	85		
Advertising	8573	—		
Misc. Selling Expense	130	04		
Office Salaries	13084	—		
Rent	4000	—		
Misc. General Expense	369	92		
Purchases Discount			1564	60
Interest Income			378	45
Sales Discount	946	90		
Interest Expense	605	50		
	269113	20	269113	20

The inventories, accruals and reserves are as follows:

Merchandise Inventory, $38,881.82; Accrued Interest on Notes Receivable, $37.25; Accrued Interest on Notes Payable, $89.00. Accrued Salaries: Sales Salaries, $158.28; Office Salaries, $162.86. Supplies on hand: Office Supplies, $154.05; Store Supplies, $278.40. Expired Insurance: Merchandise, $231.50; Store Equipment, $122.70; Office Equipment, $95.80. Annual depreciation: Office Equipment, 10%; Store Equipment, 12½%. Reserve for Bad Debts, ½ of 1% of sales on credit, $110,767.52.

Instructions. (1) Prepare a Working Sheet (net profit, $12,164.96).

(2) Prepare the Balance Sheet and Profit and Loss Statement.

(3) Prepare the adjusting and closing entries.

(4) Ascertain the number of shares of stock each partner will receive for his interest in the business assuming that the charter authorizes capital stock with a par value of $10.00 per share.

CHAPTER XXXII

OPENING AND CLOSING ENTRIES FOR A CORPORATION

The charter states the authorized capital stock of the corporation. The discussion in this chapter relates to the method of recording (a) the authorized capital stock, (b) the assets received as a result of the investment, and (c) the increase or decrease in capital due to profits or losses.

Opening Entry for Par Value Stock. When the charter is received, it authorizes the incorporators to issue stock to those who have invested assets in the corporation and to others who may invest assets in the future. Because of this authority to issue stock and the limited amount of stock that may be issued, it is customary to record the authorized capital stock before recording the assets received for stock that is issued to stockholders.

Recording the Authorized Capital. The charter on page 375 states: "With a capital stock of $50,000.00." The fact that the corporation is authorized to issue this amount of stock does not provide assets, but it does provide a means for securing these assets. For this reason, the right to issue capital stock and thereby secure assets stated in equation form is:

UNISSUED CAPITAL STOCK $50,000.00 = CAPITAL STOCK $50,000.00

The entry in the illustration at the right shows the method of recording the facts stated in this equation in journal form. The debit to the Unissued Capital Stock account records the amount of the assets that may be received for stock issued when sold at par. The credit to the Capital Stock account records the par value of stock authorized by the charter. The Capital Stock account is a positive proprietorship account. The Unissued Capital Stock account is a valuation account, proprietorship in nature, indicating a subtraction from the balance of the Capital Stock account.

September 1, 19...			
Unissued Capital Stock		50000 —	
Capital Stock			50000 —
To record the authorized capital.			

Recording Stock Issued for Assets Invested. When the incorporators apply for the charter, it is usually necessary for them to have available assets amounting to at least 50% of the stock subscribed; see Illinois requirements, paragraph 10, page 374. The promise of these assets is usually secured through a written statement from each proposed investor in which he states the amount he will invest in the corporation. A list of those who have agreed to invest assets in the corporation is referred to as the *subscription list;* those who sign this list are referred to as *subscribers.*

September 1. The Union Printing and Publishing Co. (page 375) had subscriptions for 400 shares of stock and $40,000.00 cash received from these subscribers.

The effect of this investment on the preceding equation is:

CASH $40,000.00 + UNISSUED CAPITAL STOCK $10,000.00 = CAPITAL STOCK $50,000.00

The method of recording this cash investment is:

CASH Receipts

19					
Sept.	1	Unissued Cap. Stock	Received from Subscribers	40000	—

Cash is debited to record the increase in the asset cash. Unissued Capital Stock is credited to record the decrease in the amount of the stock which the corporation is still authorized to issue. Certificates of stock for 400 shares are issued to the subscribers who now become stockholders; each stockholder receives a certificate for the number of shares subscribed.

Subscriptions on the Deferred Payment Plan. When the full amount a subscriber is to invest is not received from him at the time of his subscription and the balance is to be collected from him in one or more installments, the stock is said to be sold on the *installment* or *deferred payment* plan. A receipt is issued to the subscriber for the amount of cash collected. A certificate of stock will not be issued to him by the corporation until it has collected from him the full amount of his subscription.

A sale of stock to a subscriber on the deferred payment plan requires an account with him. He is debited in this account for the amount of his subscription which is usually the par value of the stock subscribed, and credited for the cash received from him at the time of the subscription and for subsequent collections. The accounts with subscribers are usually kept in a separate ledger known as the *subscribers ledger*.

The subscriber to whom stock is sold on the deferred payment plan is a debtor of the corporation which is authorized by the charter (paragraph 3, second division, page 375) to collect from him. This right to collect from the delinquent subscriber indicates that the balance due from the subscriber is an asset of the corporation; this asset is usually referred to as *subscriptions receivable* to distinguish it from the asset accounts receivable.

July 1. The Art Engraving Co. was incorporated with an authorized capital of $60,000.00, 600 shares, par value $100.00. 500 shares were subscribed and 50% of the subscriptions, $25,000.00, received from the subscribers, balance to be collected within 30 days.

Three entries are required to record (a) the authorized capital stock, (b) the capital stock subscribed, and (c) the cash collected from the subscribers. The method of making these entries is illustrated on the next page.

The first entry in the illustration is to record the authorized capital stock. The second entry records the indebtedness of the subscribers for stock subscribed. The debit to the Subscriptions Receivable account records the increase in the asset subscriptions receivable and the credit to the Capital Stock Subscribed account records the increase in proprietorship. The names of the subscribers are given below the explanation for posting the amount of each subscription to the account with the subscriber in the subscribers ledger.

July 1, 19...

Unissued Capital Stock		60000—	
Capital Stock			60000—
To record the authorized capital.			
1			
Subscriptions Receivable		50000—	
Capital Stock Subscribed			50000—
To record the following subscriptions ½ cash, ½ 30 days:			
L. W. Thoms	$26000.00		
J. A. Mays	10000.00		
L. C. Thoms	9000.00		
O. R. Ray	5000.00		

The entry to record the cash collected from the subscribers is:

CASH Receipts

19				
July	1	Subscriptions Rec.	50% of Subscription as follows: L. W. Thoms, $13,000; J. A. Mays, $5,000; L. C. Thomas, $4,500; O. R. Ray, $2,500.	25000—

August 1. The Art Engraving Company received $25,000.00 in cash, balance due from subscribers for stock subscribed.

This transaction results in an increase in the asset cash and a decrease in the asset subscriptions receivable. The entry in the illustration below shows the method of recording it in the cash book.

CASH Receipts

19				
Aug.	1	Subscriptions Rec.	50% of Subscription (Names of subscribers as above.)	25000—

The entry in the illustration at the left is to record the capital stock issued to the subscribers because the subscriptions have been collected in full. The debit records the subtraction from the capital stock subscribed, and the credit the subtraction from the unissued capital stock. When this entry is posted, the Capital Stock Subscribed account is in balance and the Unissued Capital Stock account shows a debit balance of $10,000.00, the par value of the stock the corporation is yet authorized to issue.

August 1, 19...

Capital Stock Subscribed		50000—	
Unissued Capital Stock			50000—
To record the stock issued to subscribers on the deferred payment plan.			

Entry for Common and Preferred Stock. When a corporation is authorized to issue both common and preferred stock, the opening entry is the same as when common stock only is issued except the par value of each class of stock is shown separately. The separate account titles are *Unissued Capital Stock Common, Unissued Capital Stock Preferred, Capital Stock Common* and *Capital Stock Preferred.*

September 1. The Daisy Pump Co. received its charter of incorporation with authority to issue 1,250 shares of common stock, par value $100.00, and 1,250 shares of 6% cumulative preferred stock, par value $100.00.

The entry to record this authority to issue stock and the capital that will result from the stock when issued is in the illustration at the right. The par value of each class of stock is recorded in separate accounts. The reason for the debits and credits is the same as that given in connection with the journal entry on page 384.

September 1, 19...

Unissued Capital Stock, Com.		125000 —	
Unissued Capital Stock, Pref.		125000 —	
Capital Stock, Common			125000 —
Capital Stock, Preferred			125000 —
To record the authorized capital stock.			

September 1. At the time of organization the Daisy Pump Co. had subscriptions for 1,000 shares of common stock at par, and 1,000 shares of preferred stock at par, and $100,000 cash collected from subscribers. The balance of the subscriptions is to be collected within 30 days.

This contract with the subscribers for stock subscribed results in an increase in the asset subscriptions receivable for $200,000.00 and an increase in the liability of the corporation to issue at a later date, common stock, $100,000.00, and preferred stock, $100,000.00. The entry to record the subscriptions is in the illustration at the left. The debit to the Subscriptions Receivable account records the increase in this asset. The credits to the Capital Stock Subscribed accounts record the increase in the corporate proprietorship which is its liability to the stockholders for stock to be issued.

September 1, 19...

Subscriptions Receivable	200000 —		
Cap. Stock Subscribed, Com.			100000 —
Cap. Stock Subscribed, Pref.			100000 —
To record the subscriptions to capital stock. (See page 386 when names of subscribers are recorded.)			

The entry to record the cash received is:

CASH Receipts

19					
Sept.	1	Subscriptions Rec.	One-half of subscriptions (See page 386 when names of subscribers are to be recorded.)	100000 —	

October 1. The Daisy Pump Co. collected $100,000.00 from subscribers for balance due on subscriptions.

This transaction increases the asset cash and decreases the asset subscriptions receivable. The entry to record it is:

CASH Receipts

19					
Oct.	1	Subscriptions Rec.	Balance of subscriptions (See page 386 when names of subscribers are to be recorded.)	100000—	

Full collection has now been made from each subscriber, hence each will receive a certificate of stock for the number of shares subscribed. The entry in the illustration at the right shows the method of recording the issue of the the common and preferred stock. Each of the Capital Stock Subscribed accounts is debited because the liability to issue stock has been decreased. Each of the Unissued Capital Stock accounts is credited to record the decrease in that class of unissued capital stock.

October 1, 19...

Capital Stock Subscribed, Com....	100000—		
Capital Stock Subscribed, Pref.....	100000—		
Unissued Capital Stock, Com. . .		100000—	
Unissued Capital Stock, Pref.....		100000—	
To record the stock issued to subscribers on the deferred payment plan.			

Assets Other Than Cash. The usual investment is cash but the corporation may agree to accept assets other than cash as the investment by a stockholder. The entry in the illustration at the left shows the method of recording the transaction with a subscriber in which the Davis Realty Co., a corporation, accepted land, value, $100,000.00, for a subscription of equal amount. The Land account is debited to record the increase in the asset land. The Subscriptions Receivable account is credited to indicate subtraction because previously the asset value of all subscriptions was recorded as a debit to this account; if a subscription had not been made previously, the Unissued Capital Stock account would have been credited.

September 1, 19...

Land.....	100000—	
Subscriptions Rec.....		100000—
Accepted land in payment for stock subscribed.		

Opening Entry for No Par Value Stock. When a corporation is authorized to issue no par value stock, the law under which it is organized usually places a minimum value on this stock. For example, the Illinois law, page 374, fixes the minimum at $5.00 per share; the incorporators may fix the price at any amount in excess of $5.00. A subscriber for no par value stock will be

required to invest assets equal to the value placed on it by the incorporators.

Since only the value of the stock subscribed is known at the time of organization, it is not customary to record the value of the unissued capital stock through an entry debiting Unissued Capital Stock and crediting Capital Stock. Information about the number of shares that may be issued and the number of shares actually issued may be given in connection with the Capital Stock account. The usual plan is to state the total number of shares authorized in connection with the title of the account and the number of shares issued in the explanation column on a line with the amount received for these shares.

When no par value stock is sold on the deferred payment plan, the entries to record the receipt of subscriptions, the receipt of cash from the subscribers, and the issue of stock to subscribers are the same as for par value stock. The debit to the Subscriptions Receivable account will be the total number of shares subscribed at the selling price of the no par value stock.

The Acme Laundry Company secures a charter authorizing it to issue 1,000 shares of no par value stock. July 1, 800 shares were subscribed for at $50.00 a share and cash received from each subscriber in full.

Since cash was received, it is not necessary to make an entry debiting Subscriptions Receivable and crediting Capital Stock Subscribed for $40,000.00. This entry is omitted and the Capital Stock account credited for $40,000.00. The entry to record the transaction on the receipts side of the cash book is:

PAGE 26 CASH Receipts

19 July	1	79	Capital Stock	800 Shares		40000	—

When this entry is posted, the Capital Stock account will appear as in the illustration at the right. It will be observed that this contains full information regarding the number of shares authorized and the number of shares issued.

PAGE 79

CAPITAL STOCK Authorized 1000 Shares

19 July	1	800 shares	C26	40000	—	

The Balance Sheet on page 381 illustrates the method of showing full information regarding no par value stock on the Balance Sheet. The total number of shares authorized as shown in connection with the title of the account less the total number of shares issued recorded in the explanation column of the Capital Stock account is the total number of shares yet to be issued. With this information and the present proprietorship, the stockholder may ascertain the book value of his certificate.

Exercise 141, Opening Entries for a Corporation

(ORAL OR WRITTEN)

1. The following is quoted from the charter granted the Allen Construction Company, July 1: "With a capital stock of $100,000.00." What entry in the general journal will be required to record this authorized capital stock?

2. July 2. The Allen Construction Company received $75,000.00 in cash from subscribers who had subscribed for capital stock, par value $75,000.00. (a) In what journal will this be recorded? What account is (b) debited? (c) credited? (d) What written evidence is given each subscriber for his investment?

3. The charter granted the American Dairy Products Company on January 2, states: "With a capital stock of $150,000.00 consisting of 500 shares of 8% cumulative preferred stock, par value $100.00, and 1,000 shares of common stock, par value $100.00." What entry in the general journal is required to record the authorized capital stock?

4. January 3. The American Dairy Products Company received $100,000.00 cash, in full for subscriptions of common stock, $70,000.00, and preferred stock, $30,000.00. How will this transaction be recorded in the cash book only?

5. The charter granted the Cooper Realty Company May 1 states: "With a capital stock of $75,000.00 consisting of 750 shares, par value $100.00." What entry is required to record the authorized capital stock?

6. May 2. The Cooper Realty Co. (Question 5) issued 100 shares of stock to J. L. Cooper for land accepted from him as his agreed investment in the corporation. State the entry to record this transaction.

7. May 3. The Cooper Realty Co. (Question 5) received subscriptions from 25 subscribers for 500 shares of stock and cash for 25% of the subscriptions; the other 75% is to be paid monthly in three equal installments. State the entry (a) to record the subscriptions; (b) to record the cash received.

8. April 1. You make application for a charter with authority to issue 200 shares of no par value stock. May 1, when the charter is granted, you have sold 120 shares at $5.00 per share and collected cash from those to whom the stock was sold. (a) What entry is required to record the cash collected? (b) What information will be recorded in the Capital Stock account?

9. June 1. You receive subscriptions for 70 shares at $5.00 per share and cash $210.00 collected from subscribers for 3/5 of their subscription, balance to be collected in two equal installments due in 60 and 90 days. State the entry to record (a) the subscriptions; (b) the cash collected.

Exercise 142, Posting Opening Entries

1. Post the general journal entry page 384 and cash book entry page 385; write the journal pages of the text in your ledger but do not write your ledger pages in the text.

2. Post the four entries illustrated on page 386 in the order of the illustrations.

3. Post the three entries on page 387 and the first two entries at the top of page 388.

There is no relation between the three sections of this exercise, hence separate ledger accounts are required for each section.

Exercise 143, Opening Entry, Par Value Stock

The charter granted the Ross Granite Company March 1 states: "With a capital stock of $100,000.00 consisting of 400 shares 6% non-cumulative preferred stock, par value $100.00, and 600 shares common stock, par value $100.00." W. C. Ross, one of the incorporators, has agreed to accept 100 shares preferred stock and 125 shares common stock at par for the land containing the granite to be quarried by the corporation. The other four incorporators have subscribed for the remainder of the preferred stock and 200 shares of the common stock and cash was received from them in full.

Instructions. (1) Make the entry to record the authorized capital stock.

(2) Record the assets received from the stockholders for stock subscribed under date of March 1.

Exercise 144, Opening Entries, No Par Value Stock

1. The charter granted the Balloon Tire Company states: "With authority to issue 10,000 shares of no par value stock." September 1, the day the charter was received, 8,000 shares were subscribed at $5.00 per share and cash received in full for the subscription. Make the entry to record the assets received and the stock issued.

2. The charter granted the Eagle Refining Company October 1 states: "With authority to issue 100,000 shares of no par value stock." At the time of organization, October 1, 50,000 shares were subscribed at $1.00 per share and cash $25,000.00 received from the subscribers as a result of collecting 50% of the subscription. The balance of the subscriptions is due December 1. Make the entries to record (a) the capital stock subscribed; (b) the cash collected October 1; (c) the cash collected December 1; (d) the stock issued December 1.

3. The charter of the Economy Farm Implements Company obtained October 1 authorizes 10,000 shares of no par value stock. 7,500 shares have been subscribed at $10.00 per share and 50% collected from the subscribers, balance to be collected in two equal amounts payable within 60 and 90 days. Make the entries (a) to record the stock subscribed; (b) the cash collected October 1, December 1 and January 2; (c) the stock issued January 2.

Incorporating a Going Business. When a going business is incorporated, it is customary for the corporation not only to take over the assets but also to assume the liabilities and issue stock to the individual owner or partners for the proprietorship of the going business. The par value of the stock issued to the owner or owners of the going business is usually the balance of the proprietorship account or accounts unless the corporation is to pay more than the book value as explained in a subsequent paragraph.

The entry to record the authorized capital stock, when stock with a par value is to be issued, is the same whether the corporation is organized as a new business or to continue the operation of a going business. When no par value stock is to be issued, the credit to the Capital Stock account is for the selling price of the stock at the time it is issued.

The Balance Sheet is used as a basis for recording the assets, liabilities, and proprietorship of the going business. An appropriate account is debited with the value of each asset received from the going business and an account with the owner as vendor is credited for the total value of the assets. The account with the vendor is debited for the total liabilities and the appropriate account credited for the amount of each liability. The account with the vendors is debited for the par value of the stock issued to them and the Unissued Capital Stock account is credited.

> September 1. Wilson & Jones, equal partners in a partnership operating a canning business, secured a charter to continue the operations of the business under the corporate name of The Peerless Canning Company. The corporation is authorized to issue 5,000 shares of stock, par value $10.00 per share. Each partner accepts 1,250 shares of stock for his proprietorship in the partnership.

The Balance Sheet below shows the assets, liabilities, and proprietary interest of the partners, August 31, the day before the transfer is made.

WILSON AND JONES CANNING CO.
BALANCE SHEET, August 31, 19...

Assets:			Liabilities:		
Cash	2478	20	Notes Payable	2500	—
Notes Receivable	600	—	Accounts Payable	3521	60
Accounts Receivable	4219	27			
Factory Equipment 24,769.05			Total Liabilities	6021	60
Less Dep. Res. 2,852.40	21916	65	Proprietorship:		
Factory Supplies	321	80	J. C. Wilson, Capital	12500	—
Prepaid Insurance	129	50	J. W. Jones, Capital	12500	—
Office Equipment 1,500.00					
Less Dep. Res. 250.00	1250	—			
Office Supplies	106	18			
TOTAL ASSETS	31021	60	TOTAL LIAB. AND CAPITAL	31021	60

The cash balance shown on the Balance Sheet will be transferred to the corporation by check made payable to The Peerless Canning Co. The other assets will be accepted by the corporation at the value stated; fixed assets will be accepted at their book value. When the transfer of cash and other assets mentioned on the Balance Sheet has been made, the facts shown on the Balance Sheet will be recorded in the general journal, and each partner will receive a certificate of stock for twelve hundred fifty shares, par value $12,500.00, as evidence of his investment in the corporation.

The general journal entries at the right and the cash book entry below show the method of recording the authorization of capital stock and the transfer of the assets, liabilities and proprietorship from the partnership to the corporation. If the corporation had been authorized to issue no par value stock, the first entry would not have been required and Capital Stock account instead of Unissued Capital Stock would be credited in the last entry. An asset account is debited for the value of each asset, a liability account credited for the amount of each liability, and the Unissued Capital Stock account credited for the par value of the stock issued to the partners. Fixed assets are recorded at the book value because this is the cost price to the corporation.

September 1, 19... Page 1

	Unissued Capital Stock		50000 —		
	Capital Stock			50000	—
	To record the authorized capital stock.				
	1				
√	Cash		2478 20		
	Notes Receivable		600 —		
	Accounts Receivable		4219 27		
	Factory Equipment		21916 65		
	Factory Supplies		321 80		
	Prepaid Insurance		129 50		
	Office Equipment		1250 —		
	Office Supplies		106 18		
	W. & J. C. Co., Vendors			31021	60
	To record purchase of assets of W. & J. C. Co.				
	1				
	W. & J. C. Co., Vendors		6021 60		
	Notes Payable			2500	—
	Accounts Payable			3521	60
	To record the liabilities assumed from W. & J. C. Co.				
	1				
	W. & J. C. Co., Vendors		25000 —		
	Unissued Capital Stock			25000	—
	To record the stock issued to the partners.				

The debits and credits to the account with W. & J. C. Co. Vendors are equal, hence, if desired, these entries may be checked and the posting omitted.

Page 2 CASH Receipts

19							
Sept.	1	√	Wilson & Jones C. Co.	See journal, page 1	2478	20	

When the general journal and cash book entries have been posted, the account balances in the ledger will show the authorized capital stock, the capital stock that may yet be issued, the assets received for the sale of stock issued, and the liabilities assumed by the corporation.

Closing the Ledger of a Going Concern. The entries in the illustration at the right show those required to record on the ledger of the Wilson & Jones Co. the transfer of the assets and liabilities to the corporation. The first two entries record the sale of the assets and the transfer of the liabilities to the corporation; the third entry, the stock received from the corporation; and the fourth entry closes the partners' Capital accounts. When these entries are posted, all the accounts in the general ledger will be in balance. If the same ledger is used by The Peerless Canning Co., the same account titles may be used. The entries to close the accounts on the ledger of the Wilson & Jones Co. are posted and the accounts that balance ruled before the opening entry of the corporation is posted.

August 31, 19...

The Peerless Canning Co.	34124	—		
Cash			2478	20
Notes Receivable			600	—
Accounts Receivable			4219	27
Factory Equipment			24769	05
Factory Supplies			321	80
Prepaid Insurance			129	50
Office Equipment			1500	—
Office Supplies			106	18
To transfer the assets of W. & J. to The P. C. Co.				
31				
Dep. Res. Factory Equip.	2852	40		
Dep. Res. Office Equip.	250	—		
Notes Payable	2500	—		
Accounts Payable	3521	60		
The P. C. Co.			9124	—
To transfer the liabilities of W. & J. to The P. C. Co.				
31				
Stock, The P. C. Co.	25000	—		
The P. C. Co.			25000	—
To record the par value of The P. C. Co. stock.				
31				
J. C. Wilson, Capital	12500	—		
J. W. Jones, Capital	12500	—		
Stock, The Peerless C. Co.			25000	—
To record the distribution of P. C. Co. stock to the partners.				

Goodwill. Goodwill, as described by the United States Treasury Department, represents the value attached to a business over and above the value of the physical property. For example, a grocer may have stock and equipment valued at $10,000.00, but a corporation may offer him $11,000.00 for his store. The offer of more than the value of the equipment and stock is made because the store has goodwill, that is, people are accustomed to buying from it and will probably buy more from it than they would from a new business.

The asset goodwill is not of a tangible nature, hence it is usually referred to as an *intangible asset.* Its value is recorded in an account with the title *Goodwill;* it is recorded only when purchased. The asset may be continued on the books indefinitely or may be written off in future fiscal periods. If written off, it is not considered an expense of any one period, but is charged to the earnings of previous periods as shown by the Surplus account. The use of the Surplus account in this connection will be discussed later.

When Goodwill is recorded in an account at the time it is purchased, it will remain on the ledger as an intangible asset. If it is desired to charge it off over a number of fiscal periods, this charge must be made through capital. In the case of a partnership, the charge is to the partners' capital accounts; in a corporation, to the Surplus account.

D. L. English owns the Busy Bee Restaurant. A corporation with an authorized capital of $50,000.00 is organized to continue the operations. D. L. English receives stock at par, $26,000.00, for his proprietorship; the corporation assumes the liabilities.

The proprietorship of D. L. English stated in equation form is:

ASSETS $22,500.00 − LIABILITIES $1,500.00 = D. L. ENGLISH, PROP., $21,000.00

The assets consist of cash $2,500.00 and equipment, book value, $20,000.00; the liabilities, a note issued to the bank for a loan.

Since the proprietorship of D. L. English is only $21,000.00 and he receives stock for $26,000.00, the incorporators are paying him $5,000.00 for goodwill.

The general journal entries at the right and the cash book entry below record (a) the authorization of capital stock, (b) the transfer of the assets, (c) the assumption of liabilities, and (d) the issue of stock to D. L. English. The conditions here are the same as those in connection with the opening entry on page 393, hence the reason for the debits and credits is the same. The Goodwill account is debited for $5,000.00, the amount paid D. L. English by the corporation for his goodwill in the business.

	September 1, 19...			PAGE 1	
	Unissued Capital Stock		50000 —		
	Capital Stock			50000 —	
	To record the authorized capital stock.				
	1				
√	Cash		2500 —		
	Equipment		20000 —		
	Goodwill		5000 —		
	D. L. E., Vendor			27500 —	
	To record purchase of assets of D. L. E.				
	1				
	D. L. E., Vendor		1500 —		
	Notes Payable			1500 —	
	To record the liabilities assumed from D. L. E.				
	1				
	D. L. E., Vendor		26000 —		
	Unissued Capital Stock			26000 —	
	To record the stock issued to D. L. E.				

PAGE 2 — CASH — Receipts

19						
Sept.	1	√	Unissued Capital Stock	See journal, page 1.	2500 —	

Sale of Stock at a Premium. Sometimes the stock in a corporation is offered for sale to the subscribers at a greater price than the par value. The purpose of this is to provide a surplus at the beginning as additional working capital. When the subscribers agree to pay more than par value for the stock, it is necessary to record this excess when the subscription is recorded.

The Davis Company is granted a charter with an authorized capital stock of $100,000.00, par value, $100.00 a share. The promoters decide to

offer this stock for sale to subscribers at $25.00 above per. April 1, $100,000.00 in cash has been received from stockholders for 800 shares at $125.00 per share.

The entry to record the authorized capital stock in the general journal is made in the same form as in the illustration on page 384. The entry to record the cash received for the sale of stock at a premium is:

CASH Receipts

19				
Apr.	1	Unissued Capital Stock	800 shares, par value, $100	80000 —
	1	Premium on Capital Stock	800 shares, $25	20000 —

When the journal and cash book entries have been posted, the capital will be shown by the balances of the Capital Stock, Unissued Capital Stock, and Premium on Capital Stock accounts. The Premium on Capital Stock account is a proprietorship account showing part of the original investment.

The promoters of a corporation may offer the stock for sale to subscribers at less than par value, unless prohibited by the law under which the corporation is organized. When stock is sold at a discount, the difference between the par value of stock and the cash received in payment for it will be debited to an account with Discount on Capital Stock. The debit balance of this account will be deducted on the Balance Sheet from the par value of the capital stock outstanding, when ascertaining proprietorship.

Surplus. A corporation is organized because the stockholders expect to make a profit from the business it operates. This profit will result from transactions completed by the corporation. The nature of the transactions completed will be the same as that of transactions completed by a similar business operated as a sole proprietorship or partnership.

The increases in proprietorship (income) and decreases in proprietorship (cost and expenses) are recorded in appropriate accounts which show the nature of the income, cost and expense. The balance of each of these accounts (referred to as temporary proprietorship accounts) is summarized in a Profit and Loss Summary account. A debit balance in the Profit and Loss Summary account shows that the operations of the business during the fiscal period have resulted in a net loss; a credit balance shows a net profit.

When the business is operated as a sole proprietorship or a partnership, the net profit is transferred to the owner's Capital account or to the Capital accounts of the partners in the proportion stated in the articles of copartnership. When the business is operated as a corporation, the net profit, which is the balance of the Profit and Loss Summary account, will not be transferred to the Capital Stock account, but to an account with Surplus. The reason for this is that earnings of a corporation can be paid as dividends but the invested capital can not. It is therefore, necessary to record the earnings separately from the invested capital in order that the directors will be certain never to pay dividends out of capital. The invested capital of a corporation is shown in the Capital Stock account, and the earnings in the Surplus account. For example, if a corporation is organized with a capital stock of $50,000.00 and

assets are received from the incorporators for this amount, the proprietorship stated in equation form is:

ASSETS $50,000 = PROPRIETORSHIP $50,000

If at the end of the first fiscal period the total assets are $73,000.00 and the total liabilities $14,000.00, the equation is:

ASSETS $73,000 − LIABILITIES $14,000 = PROPRIETORSHIP $59,000

In order that the board of directors will not pay out any of the capital as dividends, the equation may be restated as follows:

ASSETS $73,000 − LIAB. $14,000 = CAPITAL STOCK $50,000 + SURPLUS $9,000

CLOSING ENTRIES FOR A CORPORATION

The Entries to Close the Ledger for a corporation are the same as for a sole proprietorship or partnership except the one entry required to close the balance of the Profit and Loss Summary account. The balance of the Profit and Loss Summary account is closed into the Surplus account through an entry in the general journal. The entry in the illustration at the left shows the method of transferring the $9,000.00 earnings referred to in the foregoing illustration from the Profit and Loss Summary account to the Surplus account. Should the corporation be operated at a loss, the Surplus account is debited and the Profit and Loss Summary account credited for the amount of the loss.

December 31, 19...

Profit and Loss Summary	9000 —	
Surplus		9000 —
To close the P. and L. Summary account.		

Exercise 145, Entries for Par Value Stock

(ORAL OR WRITTEN)

1. What entry is required to record the authorized capital stock?
2. When the authorized capital stock is recorded, what entry is made for stock issued to those who have subscribed for stock and paid cash in full?
3. If the authorized capital stock is not recorded at the time the corporation is organized, what entry is made when stock is issued to a subscriber?
4. When stock is sold on the deferred payment plan, what accounts are debited and credited (a) to record the stock subscribed? (b) to record the cash received from subscribers? (c) to record the stock issued to subscribers when full collection has been made?
5. The proprietorship of W. H. Mills stated in equation form is:

ASSETS $22,500.00 − LIABILITIES $6,250.00 = PROPRIETORSHIP $16,250.00

W. H. Mills receives $18,000.00 worth of stock at par in a corporation organized to continue the operations of his business. (a) How much is the goodwill recorded by the corporation? (b) To what account is it debited? (c) How may it be charged off?

6. What entry is made to record the assets received from a subscriber when the stock is issued to him at the time the assets are received from him?

7. What entry is required to record the assets received from the subscriber when collections are made for stock subscribed on the installment plan?

8. R. H. Roe is to receive 25 shares of stock, par value $100.00 per share, in the Rapid Construction Company for a truck which is accepted by the corporation as his investment. What entry is required on the corporation's books to record this transaction (a) assuming that the authorized capital stock is recorded on the ledger? (b) assuming that the capital stock is recorded only as it is issued?

9. The proprietorship of A. C. Bills in a retail mercantile business which he operates is stated in the equation:

ASSETS $21,250.00 = LIABILITIES $2,250.00 + PROPRIETORSHIP $19,000.00

He receives $20,000.00 worth of stock at par in a corporation organized to continue the business. (a) How much is the goodwill? (b) State the entries to record the authorized capital stock, $50,000.00, and the stock issued A. C. Bills using four types of assets and two types of liabilities.

Exercise 146, Opening Entries

A corporation authorized to issue 10,000 shares of stock, par value $5.00 per share, is organized to continue the business operated by L. J. Charles. The agreement with L. J. Charles is that the corporation is to issue to him 5,000 shares, $5.00 per share, for his assets in the business. Cash has been received from the other incorporators for 3,000 shares at $5.00 per share.

The Balance Sheet below shows the condition of the business August 31, the day before the corporation is organized.

L. J. CHARLES
BALANCE SHEET, August 31, 19...

Assets:				Liabilities:		
Cash	11965	78		Notes Payable	8420	95
Notes Receivable	3769	80		Accounts Payable	10365	83
Accounts Receivable	10941	75				
Merchandise Inventory	12335	60		Total Liabilities	18786	78
Office Equipment 1,450.00						
Less Dep. Reserve 72.50	1377	50		Proprietorship:		
Delivery Equipment 2,140.00						
Less Dep. Reserve 214.00	1926	—		L. J. Charles, Capital	25000	—
Store Equipment 1,680.40						
Less Dep. Reserve 210.05	1470	35				
Total Assets	43786	78		Total Liab. and Prop.	43786	78

Instructions. (1) Record the authorized capital stock.

(2) Record the assets received from the incorporators and the stock issued to them.

(3) Post the entries and show in Balance Sheet form the proprietorship of the corporation under date of September 2, the day it begins operation.

Exercise 147, Opening Entries

Your proprietorship in the business which you own, stated in equation form is:

ASSETS $12,500.00 = LIABILITIES $2,500.00 + PROPRIETORSHIP $10,000.00

You secure a charter with authority to issue 500 shares of stock, par value $50.00 per share. Those who join with you to secure the charter agree that you are to have 260 shares of stock for your proprietorship in the going business, thus giving you control of the corporation. Subscriptions, including your 260 shares, have been received for 400 shares of the stock; cash is received from your associates for 50% of the stock subscribed, the balance to be collected in two equal installments payable in 60 and 90 days.

Instructions. (1) Record the authorized capital stock.

(2) Record the transfer of your assets to the corporation and the stock issued to you. Show four kinds of assets and two kinds of liabilities.

(3) Record the subscriptions from subscribers.

(4) Record the cash received from the subscribers at the time the corporation is organized.

(5) Record each collection of cash from subscribers.

(6) Record the stock issued the subscribers when subscriptions are received in full.

You may assume that the corporation is organized on the first day of the present month.

Exercise 148, Opening Entries

A corporation is formed to continue a business operated by Lee Brothers equal partners in a partnership. The corporation is to issue four hundred shares of common stock, par value $50.00 per share, to the partnership for its assets and assume all liabilities. The Balance Sheet below shows the assets, liabilities and proprietorship of Lee Bros. at the close of business on the day before the corporation is organized.

LEE BROTHERS
BALANCE SHEET, May 31, 19...

Assets:				Liabilities:		
Cash		2641	85	Notes Payable	3904	65
Notes Receivable		1941	50	Accounts Payable	2464	82
Accounts Receivable		9195	60	Accrued Wages	126	87
Merchandise Inventory		5169	80			
Prepaid Insurance		59	39	Total Liabilities	6496	34
Office Equipment	1,550.00					
Less Dep. Res.	77.50	1472	50	Proprietorship:		
				Albert Lee, Capital	9,000.00	
Delivery Equipment	2,750.00			J. L. Lee, Capital	9,000.00	
Less Dep. Res.	275.00	2475	—			
				Total Proprietorship	18000	—
Store Equipment	1,760.80					
Less Dep. Res.	220.10	1540	70			
Total Assets		24496	34	Total Liab. and Prop.	24496	34

Instructions. (1) Make the entry to record the authorized capital stock of $75,000.00.

(2) Make the entry to record the stock issued the partners.

Exercise 149, Opening Entries

L. C. Olds and his son, A. J. Olds, have been conducting a retail business as partners. January 2, a corporation is formed to continue the operations of the business under the corporate name of The Olds Mercantile Co. The authorized capital is $50,000.00 consisting of 400 shares of 6% cumulative preferred stock, par value $50.00, and 600 shares common stock, par value $50.00. The Balance Sheet below shows the financial condition of the partnership, December 31.

L. C. OLDS AND A. J. OLDS
BALANCE SHEET, December 31, 19...

Assets:			Liabilities:		
Cash	5438	04	Notes Payable	1250	—
Notes Receivable	3115	91	Accounts Payable	17217	64
Accounts Receivable	14129	50			
Merchandise Inventory	11709	19	Total Liabilities	18467	64
Supplies	125	—	Proprietorship:		
Office Equipment	2150	—	L. C. Olds, Capital	9100	—
			A. J. Olds, Capital	9100	—
Total Assets	36667	64	Total Liab. and Prop.	36667	64

January 2, the date of organization, W. L. Smith, secretary of the corporation, submits a subscription list for 350 shares of preferred stock at par and 400 shares common stock at par. This list includes 250 shares of preferred stock to be issued to L. C. Olds for his interest in the proprietorship and 250 shares of common stock to be issued to A. J. Olds for his share. The subscription list is accompanied by cash, $6,250.00, one-half the subscriptions of all subscribers except the two partners; the balance is to be collected in two equal installments, 50% February 1 and 50% March 1.

Instructions. (1) Record the authorized capital stock.

(2) Record the transfer of the assets by the partners to the corporation and the stock issued to them as per agreement.

(3) Record the subscriptions from the other stockholders.

(4) Record the cash received from the stockholders.

(5) Show in journal form the entries necessary to close the ledger of the partnership.

CHAPTER XXXIII

BOOKS OF RECORD PECULIAR TO A CORPORATION

A corporation is authorized in the charter to perform transactions with its stockholders through the board of directors and officers. The discussion in this chapter relates to the books required for recording these transactions with stockholders.

Records for a Corporation. The stockholders in accordance with the authority given them in the charter, adopt by-laws and elect a board of directors to manage the business. The board of directors in turn elect officers (each of whom must be a stockholder) to represent it in transactions with stockholders, employees, creditors and customers. The records required for providing the needed information regarding the actions of the stockholders, board of directors and officers are as follows:

Minute Book
Subscription Book
Subscribers Ledger
Stock Certificate Book
Stockholders Ledger
Stock Transfer Book

Minute Book. The minute book contains a record of (a) the charter, (b) the by-laws, (c) the business transacted by the stockholders at their meetings, and (d) the business transacted at the meetings of the board of directors. The entries in the minute book are usually made by the secretary.

The stockholders usually adopt the by-laws and elect a board of directors at the first meeting when the corporation is organized. Subsequent meetings may be at any desired time; usually the stockholders hold at least one meeting each year. All business transacted by the stockholders which includes the by-laws, amendments to the by-laws, and election of the board of directors, is recorded in the minute book.

The board of directors elects officers and supervises their actions in connection with the operations of the corporation. Because of its close contact with the affairs of the corporation, the board of directors meets more often than the stockholders. The by-laws usually provide for regular meetings of the board of directors which may be weekly, monthly or quarterly, depending upon the nature of the business to be transacted by the board. Information regarding the call for regular and special meetings of the board of directors and the action of the board at its meetings are recorded in the minute book.

Entries in the minute book do not as a rule affect the bookkeeping records. Should an action of the stockholders or board of directors affect the bookkeeping records, information regarding this action will be referred to the bookkeeper by the secretary, as a basis for the bookkeeping records. Thus, should the board of directors declare dividends, it will be necessary for the bookkeeper to transfer from surplus a sufficient amount to pay the dividends. A notice from the secretary to the bookkeeper regarding the amount of dividends is sufficient authority for his entry.

Subscription Book. When the corporation is to be organized, it is necessary for three or more of the promoters to make application for the charter. Usually those who promote the corporation, plan for financing it. This financing involves securing the assets to be invested by the proposed stockholders. The usual plan of promotion is to prepare a subscription list and have those who wish to invest sign this list stating the value of the assets to be invested.

Those who sign the subscription list are known as subscribers and each becomes a debtor (Paragraph 3, Section 2, Charter Page 375) to the corporation for the value of the stock subscribed. Cash is usually collected from each subscriber for a part or all of his subscription. The corporation is usually required to have available at the time the charter is granted assets for at least 50% of the par value of the stock subscribed.

SUBSCRIPTION LIST

We, the undersigned, hereby subscribe for the number of shares of stock in the corporation known as Union Printing and Publishing Co, set opposite our names and agree to pay for same upon demand.

Date		No. of Shares	Par Value	Signature
19 July	2	100	$10,000.	J. C. Wilson
	2	50	5,000.	J. W. Jones
	2	50	5,000	R. L. Wood
	2	50	5,000	E. E. Miller
	2	50	5,000	W. S. Shields
	2	18	1,800	James O. Whitmore
	10	15	1,500	P. A. Kent
	13	5	500	C. D. Wilhoit
	17	12	1,200	C. A. Meyer
	25	15	1,500	James Waite
	31	19	1,900	D. C. Brown
	31	10	1,000	Louis B. Renner
Aug.	3	6	600	L. J. Lloyd

The subscription list may be a separate card for each subscriber or a sheet of paper containing the names of the subscribers as in the illustration at the left. The statement in connection with the subscription includes the terms of the subscription.

The binder in which the various subscription cards or subscription lists

are filed constitutes the subscription book. The information contained in this book provides a basis for recording the subscriptions.

Subscribers Ledger. The ledger which contains a record of the changes in the amount due from each subscriber who subscribes for stock in the corporation on the deferred payment plan is referred to as the *subscribers ledger*. The title of each account is the name and address of the subscriber. Each subscriber is debited in his account in the subscribers ledger with the *par value* of par value stock subscribed or with the *selling price* of no par value stock subscribed. Each subscriber is credited in his account with the amount of cash or other assets received from him to apply on his subscription. The subscribers ledger is usually separate from the general ledger and the transactions so recorded as to have the Subscriptions Receivable account in the general ledger a controlling account for the accounts in the subscribers ledger.

Recording Transactions with Subscribers. The number of subscribers on the deferred payment plan will determine the method of recording the transactions in the subscribers ledger so as to provide a control of the balances through the Subscriptions Receivable account in the general ledger. When there are a large number of subscribers, a subscribers journal is provided in which to record the subscriptions and a subscribers cash receipts journal in which to record cash collected on subscriptions.

When the number of subscribers on the deferred payment plan is small, the needed information for posting to the subscribers ledger may be given in connection with the entry to record the asset subscriptions receivable in the general journal and the collection of cash in the cash book. See illustrations on page 386.

Stock Certificate Book. Each stockholder in a corporation has a receipt for his investment in the form of a stock certificate. He can sell or transfer all or a part of the stock indicated by the certificate to another person. This transfer can be made without the consent of anyone else connected with the corporation and without in any way affecting the affairs of the corporation. This is quite different from the transfer of ownership in a partnership for a partner can not dispose of or transfer his proprietorship without the consent of the other partner or partners.

At the time a corporation is formed, the stock certificate book consists of a number of blanks provided for issuing stock certificates to stockholders. Each blank consists of two parts, (a) the stub and (b) the certificate; the stub is provided for the information needed by the corporation and the certificate for the information needed by the stockholder. The corporation needs to know to whom each certificate is issued, his address, and the number of shares issued to him. The stockholder needs to know the name of the corporation, the authorized capital stock, and in the case of par value stock, the par value of each share.

The illustration below shows a stock certificate and stub. Certificates are signed by the officers of the corporation authorized to issue stock and the stub is signed by the stockholder as a receipt and record of his signature; the signature of the stockholder is not always required.



Common Stock
Certificate No. 14
For 18 Shares
Issued to
R. L. Walters
Dated July 2, 19
Transferred from

Dated 19
No. Original Certificate | No. Original Shares | No. of Shares Transferred

Received this Certificate
July 2, 19
R. L. Walters

STATE OF OHIO

CAPITAL STOCK
$ 100,000.00
1000 SHARES PAR VALUE $100. EACH

The Ault Grocery Company

INCORPORATED UNDER THE LAWS OF THE STATE OF OHIO
Cincinnati, O.

This Certifies that R. L. Walters is the owner of Eighteen Shares of the Capital Stock of THE AULT GROCERY COMPANY, transferable only on the Books of the Company by the said owner in person or by duly authorized Attorney upon the surrender of this Certificate properly endorsed.

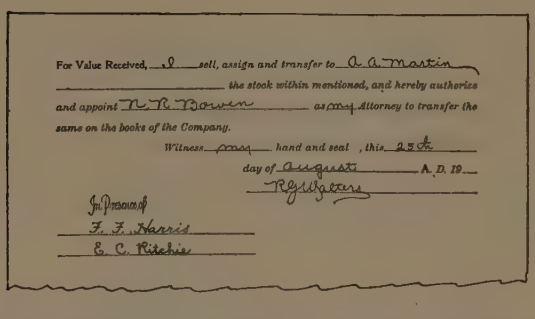
In Witness Wherof We have hereunto set our hands and affixed the Seal of the Company at Cincinnati, Ohio, this 2d day of July 19

L. C. Stallman SECRETARY Randall D. Ault PRES'T.

SHARES $100 EACH

Illustration 73, Stock Certificate

The illustration at the left shows the back of a certificate of stock. This form is provided for information relating to the transfer of the certificate by the holder. This transfer is through an authorized officer of the corporation. When stock in a corporation is purchased from a stockholder, the purchaser should have the stock transferred on the books of the corporation at once so that he may receive any dividend declared by the board of directors. When a new certificate has been issued to a stockholder in exchange for a certificate purchased, the old certificate is canceled and filed either by attaching it to the stub of the certificate from which it was removed or placing it in a file provided for this purpose.



For Value Received, I sell, assign and transfer to A. A. Martin
the stock within mentioned, and hereby authorize
and appoint N. R. Bowen as my Attorney to transfer the
same on the books of the Company.
Witness my hand and seal, this 22d
day of August A. D. 19
R. L. Walters

In Presence of
F. F. Harris
E. C. Ritchie

Illustration 74, Back of Stock Certificate

When a stockholder wishes to transfer only a part of the stock stated in his certificate, it will be necessary for him to authorize an officer of the corporation to issue two certificates, a new one to himself for that part of the stock

which he retains and one to the stockholder to whom he has transferred a part of his stock. The original certificate is canceled and full information regarding the stock issued each stockholder is shown on the stubs from which the new certificates are removed.

Stockholders Ledger. The ledger which contains an account with each stockholder showing the numbers of shares of stock owned by him is referred to as the *stockholders ledger*. The title of each account in this ledger is the name and address of the stockholder. The information recorded in each account is the number of shares issued to a stockholder by the corporation and the number of shares transferred by him to another stockholder; the par value of each share may also be recorded if desired. Each stockholder is credited in his account for the number of shares issued to him and debited with the number of shares transferred by him. The credit balance of the account with a stockholder shows the number of shares owned by him.

The illustration below shows one form of ruling for a stockholders ledger. The desired information regarding each certificate issued is recorded on one horizontal line. Three amount columns are provided. The number of shares of stock issued to a subscriber is recorded in the credit column and in the balance column. The number of shares of stock transferred by a subscriber is entered in the debit column; the new balance, which is the number of shares he now owns, is entered in the balance column.

James O. Whitman
1229 Glenview Ave., City

DATE	No. OF CERT	FROM WHOM OBTAINED OR TO WHOM TRANSFERRED	NO. OF NEW CERT.	DATE OF ASSIGNMENT	DEBIT FOR SHARES TRANS	CREDIT FOR SHARES OBTAINED	CREDIT BALANCE
19							
July 2	—	Original Issue	14			18	18
Aug. 3	18	H. S. Coulter	17	Aug. 3	4	—	14

Illustration 75, Stockholders Ledger

Stock Transfer Book. When the stock of a corporation is listed on a stock exchange, it is customary to appoint a bank to act as transfer agent and to issue certificates of stock sold on the stock exchange. The transfer agent maintains a record of the stock issued in a stock transfer book.

The illustration below shows one form of ruling for a stock transfer book. It contains columns for each item of information recorded on the stub of the certificate issued. The information in this book is reported to the corporation for record in its stockholders ledger.

DATE	SERIAL No OF CANCELED CERTIFICATE	No. OF SHARES	BY WHOM SURRENDERED	TO WHOM ISSUED	SERIAL No OF NEW CERTIFICATE	No OF SHARES	No AND FACE VALUE OF STAMPS				
							2c	4c.	$1	ETC.	VAL.

Illustration 76, Stock Transfer Book

Exercise 150, Corporate Records

(ORAL OR WRITTEN)

1. "A special meeting of the board of directors is called for Monday, 8 P. M., July 7." This is quoted from a letter sent to each member of the board of directors by A. L. Ray, Secretary of the Ray Mercantile Company, Inc. In what book would this notice be recorded?

2. By a motion of B. A. Fry, seconded by D. L. Harns, A. L. Meyers, President, was authorized to lease a building at 714 Main Street for a period of ten years. (a) In what record will this appear? (b) In connection with what other business transaction will it be recorded?

3. A. L. Jacobs invests $1,000.00 in the Art Manufacturing Company and receives a certificate of stock for 10 shares, par value $100.00. In what books of the corporation will this transaction be recorded?

4. The account in the illustration at the right appears on the ledger of the Kuhlman Drug Co., Inc. (a) What is the title of the ledger in which this account appears? (b) What does the entry on the debit side indicate? (c) Each of the two entries on the credit side? (d) Is the balance an asset or liability? (e) Why?

N. D. PAXTON

19						192					
July	5	10 shrs.		1000	—	July	5	25%		250	—
						Aug.	1	25%		250	—

5. The account in the illustration below appears on the ledger of the Moss Manufacturing Company, Inc.

W. R. RAND

Date		Cer. No.	No. of Shares Issued	No. of Shares Trans.	To Whom and By Whom Transferred	Debit		Credit		Balance	
19											
June	7	461	25		Subscribed			1250	—	1250	—
Aug.	27	469		10	To O. W. Balcon, No. 461	500	—			750	—
	27	470	15		Balance, No. 461			750	—	750	—
Oct.	16	496	20		By G. H. Banner, No. 430			1000	—	1750	—

(a) In what ledger does this account appear? (b) What other accounts are contained in the ledger? (c) If the terms of subscription were cash, what asset was received by the corporation when the first entry was made? (d) What assets were received by the corporation when the second, third and fourth entries were made? (e) How many certificates were issued for the second and third entries?

6. The Archer Mercantile Company, Inc., wishes to place an order for one hundred barrels of sugar with a firm from which sugar has been purchased

in the past. Will it be necessary for the board of directors to authorize this purchase at a regular or special meeting?

7. One of the by-laws established by the stockholders of the Mellon Company, Inc., states, "The compensation of the officers shall be fixed by the board of directors". The salary of the president is fixed at $10,000.00 and the secretary, $7,500.00. In what record will the statements regarding these salaries appear?

8. A. L. Jacobs (Question 3) transferred to his daughter, R. C. Jacobs, five shares of his stock. (a) State the procedure to be followed by Miss Jacobs and in the office of the corporation in order to effect this transfer. (b) Why is this procedure necessary?

9. If the holder of a certificate of stock should lose it, could the finder (a) have it transferred to his name on the books of corporation? (b) collect the dividend? (c) Give reasons for your answers.

Exercise 151, Corporate Records

1. January 2. The Lamb Publishing Co. is incorporated with authority to issue 2,000 shares of common stock, par value $50.00 per share.

January 3, at the time of organization, $75,000.00 cash was received from subscribers for 1500 shares of stock at par.

December 31, at the close of the first year's operations, the credit balance of the Profit and Loss Summary account was $18,946.57.

January 5 of the next year the board of directors declared a 10% dividend payable February 1 following.

February 1. Issued checks to stockholders for dividend declared.

May 1. The board of directors voted to sell the remaining 500 shares at a premium of $10.00 per share on the deferred payment plan, 25% cash, balance payable quarterly.

June 1. Received subscriptions for the 500 shares and cash $7,500.00 for the first installment.

Instructions. Prepare entries in journal form to record (a) the authorized capital, (b) the cash received and stock issued, (c) the transfer of the net profit to the Surplus account, (d) the dividend declared (Debit Surplus and credit Dividends Payable), (e) the payment of the dividend, (f) the stock sold on the deferred payment plan, and (g) the first installment collected.

Post the entries.

2. The proprietorship of the Regal Manufacturing Company at the close of the fiscal period, December 31, is shown on the Balance Sheet as in the illustration below.

Capital Stock Authorized	60000—	
Unissued Capital Stock	15000—	
Capital Stock Outstanding		45000—
Surplus		12500—
Proprietorship		57500—

Instructions. Show this same information in accounts and show the number of shares issued and outstanding; par value, $10.00.

3. Copy the account in the illustration below and show the par value (each share $100.00) in place of the question marks.

ALBERT PUTMAN

Date	Cer. No.	No. of Shares Issued	No. of Shares Trans.	To Whom or By Whom Transferred	Debit	Credit	Balance
19							
Sept. 1	240	231		Subscribed		?	?
12	270	25		By G. H. Mean No. 216		?	?
15	272		50	To W. B. Kyle	?		?
Oct. 16	326	200		Subscribed		?	?
Nov. 1	327		75	To H. G. Young	?		?
1	328	25		By O. C. Dudley		?	?

4. The account in the illustration below appears on the subscribers ledger of the Blair Construction Company:

W. C. BLAIR 10th and Main Sts., City

19							192						
Jan.	2	100 shares	J	1	10000—		Jan.	2	Trucks	J	1	3500—	
								2	Cash	C	2	1500—	
							Apr.	1	Cash	C	24	2500—	
							July	1	Cash	C	48	2500—	

Instructions. (1) Record in journal form the entry from which each item of information in this account was posted assuming that the authorized capital stock was recorded at the time of organization and that the subscription January 2 was on the deferred payment plan.

(2) Record the issue of the stock to W. C. Blair at the time the last payment was made.

CHAPTER XXXIV

ACCOUNTS PECULIAR TO A CORPORATION

The discussion in this chapter provides a summary of that given in the three preceding chapters and relates to the accounts required to provide the information referred to in the following quotation from paragraph 7, second division of the charter on page 375.

"The books of the corporation shall show the original and subsequent stockholders, their respective interests, the amount which has been paid on the shares subscribed, the transfer of stock, and other transactions in which it is presumed the stockholders . . . may have an interest."

Corporate Accounts. The usual accounts required to record the transactions completed by the corporation with its stockholders are *Capital Stock, Unissued Capital Stock, Surplus, Dividends Payable, Treasury Stock, Subscriptions Receivable* and *Capital Stock Subscribed.* Other accounts may be required. These include *Paid In Surplus, Capital Surplus, Organization Expense, Goodwill* and *Bonds Payable.* The accounts required to contain a record of the transactions completed by the corporation with creditors, customers and others with whom it may have dealings are the same as those kept by a business of a similar nature operated as a sole proprietorship or a partnership.

Authorized Capital Stock. The charter states the number of shares of stock which the corporation is authorized to issue and the par value of the stock, if it has a par value. The corporation is not required to issue all the authorized stock at the time of organization and it can not issue a greater number of shares of stock than authorized by the charter. The corporation may reduce its stock at any time a majority of stockholders elect to do so but it can not increase the number of shares authorized without an amendment of the charter by the authority which granted it.

To avoid the possibility of issuing more stock than authorized, it is customary at the time the corporation is organized to record the authorized capital stock. The Unissued Capital Stock account is debited for the par value of par value stock authorized and the Capital Stock account credited for the same amount. The Unissued Capital Stock account is credited for the par value of stock issued to stockholders. The Unissued Capital Stock account cannot be used for stock which has no par value since the Capital Stock account is credited for the selling price of this stock after it is sold and issued.

The Capital Stock Account is a record of the increases and decreases in the amount of the capital stock (shown at par) which the corporation is authorized to issue. This account is *credited* for increases which are (a) the par value of the total authorized capital at the time the corporation is organized and (b) the par value of the increases as authorized by an amendment to the charter. The Capital Stock account is *debited* for decreases in the amount of capital stock outstanding as authorized by the stockholders.

When debited and credited as described, the *credit* balance of the Capital Stock account shows the par value of the authorized capital. It is shown on the Balance Sheet in connection with the proprietorship of the corporation.

When the corporation is authorized to issue no par value stock, the credit to the Capital Stock account is the selling price of the stock for the number of shares issued. The number of shares authorized is shown in connection with the title of the account.

The Unissued Capital Stock Account is a record of the amount of capital stock authorized but not yet issued. This account is *debited* for the amount of the authorized capital stock (at par) at the time the corporation is organized and *credited* for the amount of the capital stock (at par) issued to stockholders from whom the invested assets have been received.

When the Unissued Capital Stock account is debited and credited as described, the *debit* balance will show the par value of the capital stock which the corporation is yet authorized to issue. It is shown on the Balance Sheet as a deduction from the capital stock authorized (Capital Stock account) to show the amount of capital stock outstanding.

When the corporation is authorized to issue no par value stock, the Unissued Capital Stock account is not used. In this case, the Capital Stock account is not credited until stock is issued, and then only for the amount received for the stock.

Surplus and Dividends. The net increase in the amount of corporate property as a result of transactions completed is profit referred to as surplus, and the decrease, a loss or deficit. As explained on page 397 the profit or loss is transferred from the Profit and Loss Summary account to the Surplus account at the close of the fiscal period. The credit balance of the Surplus account shows the amount of accumulated profit available for dividends.

The board of directors are elected by the stockholders to supervise the operations of the business and determine the distribution of the profit. The board of directors may distribute corporate assets to the stockholders but the amount of this distribution must not exceed the net profit as recorded in the credit balance of the Surplus account. This authorized division of assets among the stockholders is referred to as a *dividend* and the action of the board authorizing the distribution, as *declaring a dividend*. In the case of par value stock, the dividend is usually designated as a stated per cent of the par value, and in no par value stock as a designated number of dollars or dollars and cents per share of stock. Dividends are declared only on stock issued and outstanding.

The declaration of a dividend by the board of directors results in an increase in the liability *dividends payable* for the amount of the dividend and a decrease in the credit balance of the Surplus account for the same amount. Dividends are usually paid in cash. The payment of a dividend results in a decrease in the liability dividends payable and a decrease in the asset cash.

A part of the surplus is sometimes distributed to the stockholders in stock certificates; this is referred to as a *stock dividend*. A stock dividend differs from a cash dividend in that the corporate assets are not affected. A stock dividend is recorded as a debit to the Surplus account for the amount of the dividend and a credit to the Unissued Capital Stock account for the same amount.

The Surplus Account is a record of the profit or loss resulting from the operation of the corporation. This account is *credited* at the close of each fiscal period with the net profit or *debited* at the close of a fiscal period with the net loss or deficit. During the fiscal period, the Surplus account is *credited* for any errors made in a previous period which increase the profit recorded in it and *debited* for any errors made in a previous period which decrease the profit recorded in it. The Surplus account is also *debited* for the amount of each dividend declared and for any amounts taken out of surplus and set aside for a specific purpose.

When debited for decreases (*net loss*, correction of errors in previous Profit and Loss accounts when the profit was overstated, *dividends declared*, and funds set aside for a *specific* purpose) and credited for increases (*net profit* and correction of errors in previous Profit and Loss accounts when the profit was understated) the *credit* balance of the Surplus account will show that part of the profit which has not been declared as dividends. It is shown on the Balance Sheet as a part of the corporate proprietorship.

The corporation can make no profit on transactions which relate to the purchase or sale of its own stock. Any increases or decreases in assets because of a difference between par value of stock and assets received or given is an increase or decrease in capital, hence should not be recorded in the Surplus account. Only the profit or loss resulting from transactions completed with customers, creditors and others with whom the corporation deals is recorded in the Surplus account. All the profit recorded in the Surplus account is subject to dividend by order of the board of directors.

The Dividends Payable Account shows the liability of the corporation to the stockholders for the payment of dividends declared by the board of directors. This account is *credited* for the amount of each dividend on the date declared and *debited* when these amounts are paid to the stockholders.

The *credit* balance of the Dividends Payable account shows the amount owing to one or more stockholders who have not yet received the dividends. It is one of the current liabilities and shown as such on the Balance Sheet.

It is customary to designate each dividend by number and indicate this number in the title of the account or in the explanation column of the Dividends Payable account. Thus, the title of the account in which the first dividend is recorded may be Dividends Payable No. 1, the second one Dividends Payable No. 2, the third one Dividends Payable No. 3, etc. Unless the account titles are described in this manner, the title would be Dividends Payable, with No. 1, No. 2, No. 3, etc., written in the explanation column of the account.

Subscriptions Receivable. As explained on page 385 a subscriber's promise to make investments in the corporation on the installment plan

increases the asset subscriptions receivable and increases the liability capital stock subscribed. A subscription on the installment or deferred payment plan is recorded as a debit to the Subscriptions Receivable account and a credit to the Capital Stock Subscribed account.

Cash received from a subscriber as a part of his investment results in an increase in the asset cash and a decrease in the asset subscriptions receivable. When the full amount which the subscriber has agreed to invest has been collected from him, the corporation fulfills its promise through issuing stock to him. The issuing of stock to a subscriber results in a decrease in the amount of the capital stock, the corporation has promised to issue and a decrease in the capital stock it has available for issuing. The Capital Stock Subscribed account is debited to record the subtraction from the amount which the corporation has promised to issue and the Unissued Capital Stock account is credited to record the decrease in the amount of capital stock not yet issued.

The Subscriptions Receivable Account is a record of the increases and decreases in the asset subscriptions receivable. This account is *debited* for subscriptions received, and *credited* for cash or other assets received from subscribers.

The *debit* balance of the Subscriptions Receivable account shows the amount still to be collected from subscribers. It is one of the current assets of the corporation and shown as such on the Balance Sheet.

The Capital Stock Subscribed Account is a proprietorship account which shows a record of the increases and decreases in the corporate liability to the stockholders to issue stock at some time in the future. This account is *credited* for the subscriptions received from subscribers on the deferred payment plan and *debited* for the par value or selling price, if no par value stock, of the stock issued to the subscriber.

The *credit* balance of the Capital Stock Subscribed account shows the liability of the corporation to issue stock to subscribers when they have completed paying their subscriptions. It is shown on the Balance Sheet as a part of the proprietorship.

If the Balance Sheet is prepared before any stock has been issued because collection has not been made in full from subscribers, the credit balance of the Capital Stock Subscribed account will show all the invested capital at that time.

Bonds. Paragraph 7, first division of the charter on page 375 states "To borrow money and issue notes or bonds upon the face of the corporate property". This means that the corporation has the right through its officers to issue short-time notes, or long-time notes usually referred to as *bonds*.

A bond is a long-time note authorized by action of the board of directors and executed by the officers of the corporation. The purpose of the bond issue is to secure assets for use in the operation of the business. When a bond issue is made, it is customary to issue a number of bonds of denominations of $100.00, $500.00, or $1,000.00. The sum of the face value of the various bonds is equal to the total of the bond issue.

A bond issue is made for a term of years, usually ten years or more. Each bond issue may have attached to it coupons which are the corporation's promises to pay interest on the bond at specific times, usually semi-annually.

The Bonds Payable Account is a record of the increases and decreases in the liability bonds payable. This account is *credited* for the face value of the bonds issued and *debited* for the face value of any bonds paid.

The *credit* balance of the Bonds Payable account shows the amount of the liability bonds payable. It is one of the fixed liabilities of the corporation and shown as such on the Balance Sheet.

A fixed liability is one which is payable a comparatively long time after the debt is contracted. Fixed liabilities differ from current liabilities in that current liabilities are payable in a short time, usually within two or three months.

Organization Expense. The expense incurred in connection with organizing a corporation is known as *organization expense.* This expense includes legal fees, commission, office rent and similar expenses incurred before the corporation is ready to begin business.

Ordinarily expenses are not considered to be assets, but organization expense is an asset of a nature similar to deferred charges. It may be carried on the books as an asset permanently although many companies write it off over a number of fiscal periods. If it is charged off, it is not considered an expense of any one fiscal period, but is charged to Surplus.

While organization expense is an asset yet it is of an intangible nature, hence it is referred to as an *intangible* asset. In this respect it differs from such deferred assets as supplies and prepaid insurance.

The Treasury Department has ruled that organization expense can not be regarded as an operating expense, that is, a deduction from the operating income for one or more fiscal periods. It may, however, be written off as a debit to the Surplus account.

The Organization Expense Account is a record of the deferred asset organization expense. This account is *debited* at the time the corporation is ready to begin business for the total expenses required in connection with the organization, and *credited* at the close of each fiscal period for the amount which the board of directors authorizes to be charged off.

The *debit* balance of the Organization Expense account shows the amount of the deferred asset organization expense yet to be charged off. It is shown on the Balance Sheet after the fixed assets; it is not shown with the deferred assets because it does not have the same meaning as supplies or prepaid insurance.

The Goodwill Account is a record of the goodwill purchased by the corporation in connection with the purchase of a going business as explained on page 395. The Goodwill account is *debited* at the time of purchase for the cost of the goodwill. The *debit* balance shows the cost of the goodwill. It is an intangible asset and shown on the Balance Sheet after the fixed assets.

The amount paid for goodwill may be allowed to remain in the Goodwill account or it may be charged off through Surplus in the same manner as organization expense. It cannot be regarded as an operating expense and deducted from operating income; this statement applies whether the goodwill is recorded on the ledger of a partnership or a corporation except that in the case of a partnership the goodwill is charged off through the capital accounts.

The cost of obtaining a copyright is debited to an account with Copyrights, and a patent right, to an account with Patent Rights. These accounts contain a record of intangible assets of the same nature as goodwill. When charged off over a period of years, the amount of the decrease in the asset value of the copyright or patent right applicable to each year may be recorded as an expense deductible from the income for the year.

Treasury Stock. The law under which a charter is issued usually prohibits the corporation from buying its own stock except under certain conditions. When it is necessary to purchase the stock under these conditions, the stock so purchased must be sold within a designated time, usually one year. The purchase of its own stock by a corporation results in a decrease in the assets and a corresponding decrease in the capital stock outstanding for the par value of the stock purchased. Stock which comes into the possession of the corporation through transactions of this nature is referred to as *treasury stock*. It is customary to record the par value of treasury stock in an account with the title *Treasury Stock*.

Treasury stock has the same meaning to the corporation as unissued capital stock in that it is a deduction from the authorized capital stock recorded in the Capital Stock account. Neither treasury stock nor unissued capital stock have an asset value. The sum of the par value of unissued capital stock and treasury stock is deducted from the capital stock authorized to ascertain the par value of the capital stock outstanding; these accounts are shown in this manner on the Balance Sheet.

Treasury stock may also come into the possession of the corporation through donation by stockholders. The meaning of treasury stock is the same whether it is received from a stockholder as a donation or purchased from a stockholder.

Donated Treasury Stock. Should the stockholders wish to secure additional assets as an investment in the corporation without increasing the capital stock outstanding, they may donate a part of their stock to be sold by the corporation. Stock donated to the corporation by its stockholders does not change the assets, liabilities or proprietorship of the corporation but it does reduce the amount of the capital stock outstanding. A record of this should be made on the ledger in order that the par value of the outstanding capital stock may be shown by account balances. The usual plan is to record the par value of the stock donated as a debit to the Treasury Stock account and a credit to an account with the title Donated Treasury Stock.

May 10. The stockholders of the May Store, Inc., agreed to donate stock with a par value of $10,000.00.

The entry to record the needed facts on the ledger is in the illustration at the right. The debit to the Treasury Stock account records the decrease in the outstanding stock and the credit to the Donated Treasury Stock account records the authorized increase in capital to be secured through assets received when the donated stock is sold.

May 10, 19

Treasury Stock	10000 —		
Donated Treasury Stock			10000 —
100 shares of stock donated by stockholders.			

May 20. The May Store received $10,000.00 in cash for stock issued as authorized by the donation May 10.

This transaction results in an increase in assets and a corresponding increase in invested capital. The Cash account is debited to record the increase in assets and an account with *Donated Surplus* or *Capital Surplus* credited to record the increase in invested capital. This additional investment can not be recorded as a credit to the Capital Stock account because this account was credited with the par value of all authorized capital stock at the time of organization, nor to the Surplus account because this account contains a record of the profit available for dividends. The entry to record the cash is:

CASH

19				Receipts
May	20	Donated Surplus	Donated stock	10000 —

Since the assets are now in the form of cash and the ownership is represented in the Donated Surplus account, it is necessary to remove the Donated Treasury Stock and Treasury Stock accounts from the books. This is accomplished by reversing the first entry as shown in the illustration at the left.

May 20, 19

Donated Treasury Stock	10000 —	
Treasury Stock		10000 —
To close the Donated Treasury stock account.		

If the May Store had received only $9,000.00 cash for the stock sold, the credit to the Capital Surplus account would have been $9,000.00 instead of $10,000.00. The price received from the sale of the donated stock will not affect the journal entry to record the donation and to reverse the entry after the donated stock is sold.

The Treasury Stock Account is a record of the corporation's own stock which has once been issued and is again owned by the corporation. This account is *debited* when such stock is purchased by or donated to the corporation, and *credited* when this stock is sold. Stock entered in this account is always valued at par.

The *debit* balance of the Treasury Stock account shows the amount of the stock in the treasury (valued at par) available for sale to stockholders. It is

shown on the Balance Sheet as a deduction from the balance of the Capital Stock account because it reduces the amount of the capital stock outstanding.

The Donated Treasury Stock Account is a record of the par value of capital stock donated to the corporation by its stockholders. This account is *credited* for the par value of the stock at the time donated and *debited* with the par value of the donated stock when sold and issued.

When debited and credited as described, this account will balance. Since the purpose of the donation is to secure capital, the closing entry is usually a few days after the opening entry, hence it will not appear on the Balance Sheet.

Capital Surplus Account. The purpose of the Capital Surplus account is to contain a record of the capital authorized by the stockholders through donated stock. This account is *credited* for the assets received from the sale of donated stock. The *credit* balance is shown on the Balance Sheet as a part of the proprietorship.

When all of the capital stock authorized has been issued and the stockholders desire to increase the invested capital, they may invest additional assets instead of donating stock. The investment of these assets results in an increase in the assets and a corresponding increase in the invested capital. Cash or the account which shows the value of the assets invested is debited and an account with *Paid In Surplus* credited.

Exercise 152, Corporate Accounts

(ORAL OR WRITTEN)

1. At the close of the annual fiscal period, December 31, the credit balance of the Profit and Loss Summary account on the ledger of a corporation is $32,500.00. State the journal entry required to close this account.

2. January 5 after the entry in Question 1 was made, the board of directors declared a dividend of $2.50 per share on 8,400 shares outstanding. State the entry required to record this dividend.

3. July 1 after the date referred to in the preceding question, the balance of the Dividend account was $75.00 because the address of a stockholder was unknown. (a) Was this a debit or a credit balance? (b) How many shares of stock does this stockholder own?

4. The authorized capital stock of a corporation is $100,000.00. State the entry to record this stock July 1, the date of organization.

5. On the date of organization the corporation referred to in Question 4, received subscriptions on the deferred payment plan for stock with a par value of $75,000.00. State the entry to record these subscriptions.

6. October 1, the balance of the Subscriptions Receivable account on the ledger of the corporation referred to in Question 5 was $35,000.00. (a) Is this a debit or credit balance? (b) How much has been collected from subscribers? (c) In what account is the invested capital recorded?

7. The Dix Creamery, Inc., is in need of additional capital. All authorized capital stock has been sold. State one way in which the board of directors can secure this capital so that it may be used over a period of years.

8. In what book would the information regarding this proposed increase in capital be recorded?

9. The Bonds Payable account on the ledger of the Jones Tractor Co. shows a balance of $22,500.00. (a) Is this a debit or credit balance? (b) Why?

10. When the Hood Railway Co. was organized, May 1, the secretary reported expenses in connection with organization of $12,500.00, and the board of directors authorizes the treasurer to issue a check to him for this amount. How will this check be recorded?

11. April 30 of the year following (Question 10), the credit balance of the Profit and Loss Summary account on the ledger of the Hood Railway Co. was $38,600.00. State the entry to close this account.

12. On the same date as the preceding question, the board of directors of the Hood Railway Co. authorized the bookkeeper to charge off one-tenth of the organization expense. State the required entry.

13. How much profit will the Hood Railway Co. have available for dividends when the entries required in Questions 11 and 12 have been posted?

14. The Goodwill account on the ledger of Miller Range Co. shows a balance of $11,700.00. (a) Is this a debit or a credit balance? (b) Why?

15. The balance of the Goodwill account referred to in the preceding question is 9/10 of that recorded at the time the corporation was organized, 1/10 having been charged off at the end of the first year. (a) How much was the goodwill at the time this corporation was organized? (b) What entry was required to charge off this one-tenth?

16. The Parker Mercantile Co. requires each employee to own at least one share of stock in the company with the understanding that the company will buy the stock of an employee should he resign. A. L. Bradley, an employee, owns one share for which he paid the company par value, $100.00. June 1, he resigned and the company paid him $100.00 for his share of stock. State the entry required to record this transaction.

17. July 1. The share of stock purchased from A. L. Bradley (Question 16) was sold to L. E. May and cash received from him for the par value. (a) State the entry to record this transaction. (b) Will L. E. May receive the certificate which was held by A. L. Bradley?

18. The Long Machine Co., a corporation, needs additional invested capital. The authorized capital stock has been sold and issued. State two ways in which the stockholders may increase the invested capital without amending the charter.

19. The stockholders of the Long Machine Co. vote to donate 200 shares of stock, par value $20,000.00. State the three entries required in connection with this donated stock which is sold for $18,000.00 cash.

20. The stockholders of a corporation which has sold all of its authorized capital stock vote to increase the capital by investing an additional $25,000.00 in cash. State the entry to record this investment.

Exercise 153, Opening Entries

L. C. Cotter and D. H. Layman own and operate the Cotter & Layman Hardware Company as a partnership. The company is incorporated under the same firm name with a capital stock of $50,000.00, 200 shares of preferred stock par value $100.00, and 300 shares of common stock par value $100.00. L. C. Cotter receives 120 shares preferred stock for his proprietorship and D. H. Layman, 100 shares of common stock for his proprietorship. J. B. Cole, D. A. Holmes, C. L. Barnes and L. M. Edwards each subscribe for 10 shares of common stock, one-half cash, balance to be collected in three months.

The Balance Sheet below shows the condition of the partnership business September 30, the day before the corporation is organized.

COTTER & LAYMAN HARDWARE CO.
BALANCE SHEET, September 30, 19

Assets:			Liabilities:		
Cash		824 85	Notes Payable		4000 —
Notes Receivable		3846 50	Accounts Payable		2816 50
Accounts Receivable		8759 54	Accrued Wages		109 35
Merchandise Inventory		9642 81			
Supplies		27 65	Total Liabilities		6925 85
Prepaid Insurance		52 50			
Office Equipment	1350.00		Proprietorship:		
Less Depreciation Res.	218.00	1132 —	L. C. Cotter, Capital	10000	
			D. H. Layman, Capital	9500	
Delivery Equipment	2600.00				
Less Depreciation Res.	460.00	2140 —	Total Proprietorship		19500 —
Total Assets		26425 85	Total Liab. & Prop.		26425 85

Instructions. (1) Record the authorized capital stock.

(2) Record the stock subscribed.

(3) Record the assets received from the subscribers and the Goodwill.

(4) Record the capital stock issued to the partners.

Exercise 154, Analysis of Surplus

The account in the illustration below appears on the ledger of the Durham Chemical Company at the close of the monthly fiscal period, July 31.

SURPLUS

19						19				
July	5	Dividend	J19	10000 —		July	1	Balance	12652	75
	15	Error	J27	68	50		20	Error	13	60
							31	P. & L. Summary	18521	90

Instructions. (1) Show the entries in general journal form from which the two debits and the second and third credits were posted. The error July 15 was an allowance because of an overcharge to a customer for sale of April 10 and not recorded when reported April 16. The error of July 20 is an allowance because of an overcharge by a creditor for purchase of May 20 but not recorded when reported May 24.

(2) Why is the Surplus account debited and credited for these errors?

(3) Show the entries in general journal form which would have been made to correct the errors had the record been made on the dates reported.

CHAPTER XXXV

COLUMNAR RECORDS

The purpose of columnar records is to facilitate posting and provide for control of subsidiary ledgers. The need for columnar records has been discussed and illustrated in previous chapters. The discussion in this chapter relates to (a) the cash journal, (b) the notes receivable and payable journals, and (c) columnar purchases and sales journals.

Cash Journal. A combination of the cash book and the general journal is referred to as a *cash journal.* This combination facilitates recording transactions and posting. The cash journal is of special value when many transactions of the same nature are to be recorded and one bookkeeper records them.

In a non-trading business the cash journal may be the only book of original entry required. In a trading business special journals will be required for recording purchases and sales. When transactions involving notes receivable and notes payable occur frequently, the note registers may be used as books of original entry.

The combined cash receipts journal and cash payments journal is sometimes referred to as a cash journal instead of a cash book. The usual interpretation of the cash journal, however, is a combination of two or more journals each of which has special columns for amounts to be posted in total to the same accounts.

Illustrations. The cash journal and the other journals usually required in connection with a trading business are best explained through illustrations. The illustrations which follow contain a record of the transactions completed by the Ault Grocery Company, a corporation, during the monthly fiscal period of June; the same records would have been used had the business been operated as a sole proprietorship or partnership.

The Ault Grocery Company sells groceries at wholesale and operates a branch store, in the same city, which serves the retail trade. All purchases are recorded in the purchases journal; sales at wholesale and to the branch store, in the sales journal; notes received from charge customers, in the notes receivable journal; notes issued to creditors and the bank, in the notes payable journal; and all other transactions in the cash journal.

Two subsidiary ledgers are maintained, one with accounts receivable and the other with accounts payable. Controlling accounts are maintained in the general ledger for each of these subsidiary ledgers. The transactions completed by the branch store are recorded by a bookkeeper at the branch store. The Branch Store account in the general ledger contains a record of the assets transferred to the branch store and received from it, but is not a control of all the entries recorded by the branch store bookkeeper.

PAGE 13 CASH JOURNAL FOR MONTH OF JUNE, 19

CITY NATIONAL BANK DR.	CITY NATIONAL BANK CR.	DATE	L. F.	NAME OF ACCOUNT	NO.	GENERAL LEDGER DEBIT	GENERAL LEDGER CREDIT	ACCOUNTS RECEIVABLE LEDGER DEBIT	ACCOUNTS RECEIVABLE LEDGER CREDIT	SALES DISCT DEBIT	PURCHASES DISCT CREDIT
		1	✓	Balance in Bank	1865.81						
408.54		1	14	Miller & Ladd					421.15	12.64	
	266.67	1	✓	Branch Store	575						
		2	26	Dudley Bros							
259.60		2	✓	Notes Receivable							
	25.50	2	10	Office Supplies	576	25.50					
	192.—	2	24	Accrued Pay Roll	577	128.—					
		2	✓	Branch Store							
	703.85	2	5	Nelson Paper Co	578						14.36
	4.31	4	17	Parker Bros & Co	579			4.31			
	450.—	4	44	Rent	580	450.—					
	816.51	4	37	P. H. Haynes & Co	581						16.66
569.32		4	29	Williams Bros					586.93	17.61	
318.40		4	✓	Branch Store							
7335.16	2746.44	4	✓	Notes Payable	582	403.50		4.31	1008.11	30.25	31.02
1960.—		29	23	Notes Payable			2000.—				
		29	56	Interest Expense		40.—					
		29	32	Freight In		7.85					
		29	18	J. Simon & Co.							
	51.85	29	12	Warehouse Material	607	51.85					
150.51		29	31	C J Mead & Co					198.16	4.69	
423.61		29	✓	Notes Receivable							
		29	54	Interest Income			4.11				
	420.—	29	✓	Branch Store (Pay Roll)	608						
	668.31	29	12	Royal Baking Powder Co	609						13.64
		30	28	Logan & West					32.78		
	389.19	30	✓	Notes Payable	610						
		30	56	Interest Expense		1.94					
	1092.—	30	✓	Pay Roll	611						
	500.—	30	35	Traveling Expense		500.—					
962.50		30	✓	Branch Store							
	19.36	30	50	Miscellaneous Office Expense	612	4.75					
		30	39	Miscellaneous Selling Expense		9.85					
		30	43	Miscellaneous Delivery Expense		6.75					
19532.58	16258.21					9844.10	7431.99	18.43	5614.64	192.86	249.88
(1)	(1)					(2)	(3)			(2)	(3)

Illustration 77, Cash Journal (Left Page)

Recording Transactions in the Cash Journal. Each transaction which would be recorded in the separate cash book or the separate general journal is recorded in the cash journal. Before recording a transaction it is necessary to determine its effect on the assets, liabilities, and proprietorship. When this effect has been determined, it is recorded in the appropriate columns.

At least two columns will be required to record each transaction. Two or more lines may be required to record a transaction when special columns are not provided for all the accounts affected by the entry. The explanation of each transaction, as stated in the explanation column at the right on page 421, contains sufficient information to permit an interpretation of the transactions. One criticism that has been made of the cash journal is that it is difficult to audit the entries recorded therein. When each entry is recorded on one or more horizontal lines and the explanation of the entry

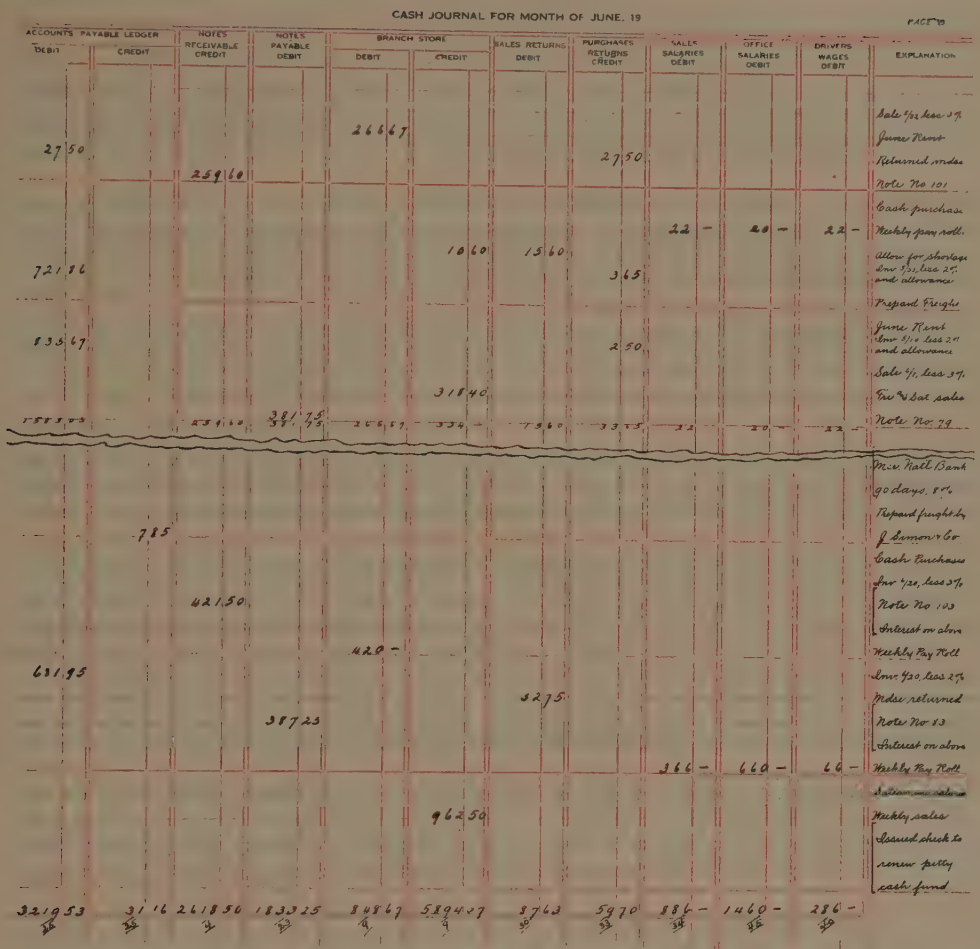


Illustration 77, Cash Journal (Right Page)

written in the explanation column on the line or lines used for the entry, this objection may be overcome.

The cash balance entered on the first horizontal line is not placed in an amount column because it is already recorded in the account with the City National Bank in the general ledger. The cash balance at the beginning of the month is needed when proving cash during the month, hence it should be written in the explanation column.

The first transaction is recorded on the second horizontal line. The explanation "Sale of 5/22, less 3%" indicates that it is a transaction with a customer or creditor. The amounts entered in the Accounts Receivable Ledger, Credit column and the Sales Discount column indicate that the transaction is with a customer. The title of the account "Miller & Ladd" states the name of the customer. The amount entered in the City National Bank,

Debit column shows that cash was received from the customer. From the information in the three amount columns, the title of the account column, the explanation column and the date column, the transaction may be interpreted as "June 1, received check from Miller & Ladd for $408.54 for sale of May 22, $421.18, less 3% discount, $12.64."

Analyzing each transaction in the manner illustrated will permit an audit of each entry in the illustration. Thus, the second entry records payment of June rent for the branch store; the third, a return of merchandise to a creditor; the fourth, collection of a note; the fifth, a purchase of office supplies for cash; the sixth, payment of the weekly pay roll a part of which was recorded as an accrued liability at the close of the May fiscal period, etc.

Cash Proof. All cash received is deposited in the bank and all cash payments except small amounts are made by check; small amounts are paid from the petty cash fund. The title of the Cash account is the name of the bank. Each amount of cash received is recorded in the City National Bank, Dr. column and each amount paid, in the City National Bank, Cr. column.

When it is desired to prove cash, all amount columns are footed. The total of the cash receipts as recorded in the Bank, Dr. column plus the balance on hand at the beginning of the month less the total payments recorded in the Bank, Cr. column should be the cash in the bank or the sum of the cash on hand and in the bank. At the time cash is proved, the equality of the debits and credits recorded in the various columns should also be proved. The total of the debit columns should equal the total of the credit columns.

The small figures in the illustrations on pages 420 and 421 show that cash was proved June 4. The total receipts, $1,555.86+$8,865.81, balance June 1, =$10,421.67; $10,421.67−$2,840.66, total payments, =$7,581.01, the cash on hand. The sum of all columns in which debit amounts are recorded is $4,507.04. The sum of all columns in which credit amounts are recorded is $4,507.04. The foregoing facts prove cash, assuming that the cash balance is the same as the bank balance, and prove the equality of debits and credits recorded in the cash journal.

Daily Posting from the Cash Journal. The amounts to be posted daily are those recorded in the General Ledger, Accounts Receivable Ledger, and Accounts Payable Ledger columns. The posting is as follows:

Each amount entered in the General Ledger, Dr. column is posted to the debit of an account in the general ledger and each amount entered in the General Ledger, Cr. column to the credit of an account in the general ledger.

Each amount entered in the Accounts Receivable Ledger, Dr. column is posted to the debit of an account with the customer in the accounts receivable ledger and each amount entered in the Accounts Receivable Ledger, Cr. column to the credit of the account with the customer in the accounts receivable ledger.

Each amount entered in the Accounts Payable Ledger, Dr. column is posted to the debit of the account with the creditor in the accounts payable ledger. Each amount entered in the Accounts Payable Ledger, Cr. column is posted to the credit of the account with the creditor in the accounts payable ledger.

Monthly Posting from the Cash Journal. At the end of each month or when a Trial Balance is to be taken, cash is proved, the equality of debits and credits recorded in the various columns is proved, and the cash journal is ruled as in the illustration. The total of each column (except the General Ledger columns) is posted to the account in the general ledger written at the top of the column. The page of the account in the general ledger is written below the total as in the illustration.

Purchases Journal. The illustration below contains a record of the purchases during June; the waved lines indicate an omission of a part of the record. Three amount columns are provided because merchandise is purchased for the main store and the branch store. Each purchase invoice is analyzed to determine the amount to be entered in each of the three columns. The total of the invoice is entered in the Accounts Payable, Cr. column, the branch store purchases in the Branch Store, Dr. column, and the main store purchases in the Purchases, Dr. column.

PURCHASES JOURNAL — PAGE 10

June, 19

DATE	L. F.	ACCOUNT CREDITED	ADDRESS	TERMS	INV. DATE	ACCOUNTS PAYABLE CR.	BRANCH STORE DR.	PURCHASES DR.
3	3	Anderson Bros.	Philadelphia	30 days	6/1	974 87	221 60	753 27
9	5	Wilson Paper Co.	City	7/30-7/60	6/5	758 93	219 65	539 28
11	21	Kirgen Preserve Co.	Hamilton, O.	30 days	6/9	405 17		405 17
30	17	Frye Sugar Co.	New York	3/0-7/30	7/1	2135 74		2135 74
30	43	National Biscuit Co.	Chicago	2/60-7/90	6/28	697 32	151 25	546 07
30	11	Bruton & London	Nashville	90 days	6/28	1243 65		1243 65
30	25	Accounts Payable-Cr.				13249 99		
30	9	Branch Store-Dr.					2237 52	
30	31	Purchases-Dr.						11012 47

Illustration 78, Purchases Journal

Posting the Purchases Journal. Each amount entered in the Accounts Payable, Cr. column is posted to the credit of an account in the accounts payable ledger; this posting is daily. At the end of the month the three columns are footed and the addition proved to be correct; the sum of the totals of the Branch Store, Dr. and Purchases, Dr. columns should equal the total of the Accounts Payable, Cr. column.

The three accounts in the illustration below show the June 1 balances and posting of the following totals:

(1) Accounts Payable, Cr., Branch Store, Dr., and Purchases, Dr. from the purchases journal (page 423).

(2) Branch Store, Dr. from the sales journal (page 424).

(3) Accounts Payable, Dr. from the notes payable journal (page 426).

(4) Branch Store, Cr., Accounts Payable, Dr., and Accounts Payable, Cr. from the cash journal (page 421).

Branch Store PAGE 9

19						19					
June	1	Inventory	✓	7000	—	June	30		G	19	589497
	30		P	10	223752						
	30	1	S	20	313465						
	30		G	19	84867						

Accounts Payable PAGE 83

19						19					
June	30		N.P.	3	261065	June	1	Balance	✓		659677
	30		G	19	321953		30		P	10	1324999
							30		G	19	3116

Purchases PAGE 31

19						
June	30		P	10	110247	

Sales Journal. The illustration below contains a record of the sales during June; the waved line indicates an omission of a part of the record. Each sales invoice is analyzed to determine the amount to be entered in each column. The amount of a sale to a charge customer is entered in the Accounts Receivable, Dr. column, a sale to the branch store in the Branch Store, Dr. column, and the total of the invoice in the Sales, Cr. column.

June, 19 — SALES JOURNAL — PAGE 20

DATE	L. F.	ACCOUNT DEBITED	ADDRESS	TERMS	SALE NO	ACCOUNTS RECEIVABLE DR.	BRANCH STORE DR.	SALES CR.
1	29	Williams Bros.	Philadelphia	3/10-7/30	527	58693		58693
2	47	Parker Bros & Co.		3/10-7/30	528	61645		61645
2	✓	Branch Store			529		105870	105870
4	10	Randal & Smith	Gainesville	90 days	530	6129		6129
4	41	The J. T. Wilson Co.	193 Oliver St. City	3/10-7/30	531	48367		48367
20	✓	Branch Store			556		78492	78492
29	17	Saylor & Day		7/1-7/10-7/30	557	108068		108068
30	6	Accounts Receivable-Dr.				1365067		
30	9	Branch Store-Dr.					31346 5	
30	29	Sales-Cr.						1678532

Illustration 79, Sales Journal

Posting the Sales Journal. Each amount entered in the Accounts Receivable, Dr. column is posted to the debit of an account in the accounts receivable ledger; this posting is daily. At the end of the month the three columns are footed and the addition proved to be correct; the sum of the totals of the Accounts Receivable, Dr. and Branch Store, Dr. columns should equal the total of the Sales, Cr. column.

The two accounts in the illustration below show the posting of the totals of (a) the Accounts Receivable, Dr. and Sales, Cr. columns in the sales journal, page 424, (b) the Accounts Receivable, Dr. and Cr. columns in the cash journal, page 420, and (c) the Accounts Receivable, Cr. column in the notes receivable journal, page 426; the posting of the Branch Store, Dr. column in the sales journal is shown in the Branch Store account, page 424.

Accounts Receivable PAGE 6

19								19							
June	1	Balance	✓		10	19	80 1	June	30	N.R.	5		28	81	63
	30		S.	20	13	65	06 7		30	C.	19		56	14	64
	30		C.	19		18	43								

Sales PAGE 10

								19							
								June	30	S.	20	16	78	5	32

Notes Receivable Journal. If the transactions with notes receivable are numerous, the notes receivable register may be used as a book of original entry in which case it is known as a *notes receivable journal.* The use of the notes receivable journal avoids the necessity of recording each note receivable in the general journal thus providing in one book (a) detailed information regarding the note, and (b) means of posting to the ledgers.

The illustrations on pages 426 and 427 contain a record of the notes and acceptances receivable received by the Ault Grocery Company during the months of May and June. Three amount columns are provided, (a) face of the note, (b) accounts receivable ledger, and (c) general ledger. The face of a note received from a charge customer as an extension of time is entered in the Notes Receivable, Dr. and Accounts Receivable, Cr. columns. The face of a note which is to be credited to an account in the general ledger is entered in the Notes Receivable, Dr. and General Ledger, Cr. columns. Thus, note No. 101 was received from K. V. Otto to renew a note, hence Notes Receivable in the general ledger is credited. Note No. 102 was received from W. H. Bowser, a charge customer, in settlement of his account, hence an account in the accounts receivable ledger is credited.

Posting the Notes Receivable Journal. Each amount entered in the Accounts Receivable, Cr. column is posted to the credit of the account with the charge customer in the accounts receivable ledger; this posting is daily. Each amount entered in the General Ledger, Cr. column is posted to the credit of the account in the general ledger written in the Account Credited column;

PAGE 5

NOTES RECEIVABLE JOURNAL

DATE	OUR No	L. F	FROM WHOM RECEIVED (ACCOUNT CREDITED)	FACE OF PAPER NOTE REC DR	ACCOUNTS RECEIVABLE CR.	GENERAL LEDGER CR	MAKER (NOTE) DRAWEE (DRAFT)
19 May 3	101	4	Notes Receivable	259 60		259 60	K. V. Otto
17	102	16	W. H. Bowser	583 32	583 32		W. H. Bowser
30	103	20	Gordon & Bane	421 50	421 50		Gordon & Bane
31	104	17	Saylor & Day	416 75	416 75		Saylor & Day
				1681 17	1421 57	259 60	
June 1	105	22	G. H. Langdon	815 25	815 25		G. H. Langdon
2	106	8	J. C. Bell & Co	546 82	546 82		J. C. Bell & Co
7	107	14	Miller & Ladd	575 33	575 33		Miller & Ladd
18	108	30	Russell & Russell	471 87	471 87		Russell & Russell
25	109	42	Mahan Bros	472 36	472 36		Mahan Bros
				2881 63	2881 63		

Illustration 80, Notes Receivable Journal (Left Page)

NOTES PAYABLE JOURNAL

DATE	OUR No	L. F.	IN WHOSE FAVOR (ACCOUNT DEBITED)	FACE OF PAPER NOTE PAYABLE CR.	ACCOUNTS PAYABLE DR	GENERAL LEDGER DR	MAKER (NOTE) DRAWEE (DRAFT)
19 Apr 12	75	✓	City National Bank-Cash	2500 —		2500 —	Ourselves
28	76	8	Riley & Walsh	321 60	321 60		Ourselves
29	77	11	Bruton & Condon	314 40	314 40		Ourselves
				3136 —	636 —	2500	
May 1	78	24	Jenkins Bros	522 71	522 71		Ourselves
3	79	7	Union Match Co	381 75	381 75		Ourselves
16	80	19	H. J. Banner Co	411 27	411 27		Ourselves
22	81	32	Beck & Co.	736 85	736 85		Ourselves
25	82	10	Newton & Klein	327 40	327 40		Ourselves
31	83	18	J. Simon & Co	387 25	387 25		Ourselves
				2767 23	2767 23		
June 5	84	3	Anderson Bros	974 87	974 87		Ourselves
11	85	21	Kirgen Preserve Co	405 17	405 17		Ourselves
15	86	28	Campbell & Co	750 —	750 —		Ourselves
22	87	18	National Salt Works	480 61	480 61		Ourselves
29	88	✓	City National Bank-Cash	2000 —		2000 —	Ourselves
				4610 65	2610 65	2000 —	

Illustration 81, Notes Payable Journal (Left Page)

this posting is usually daily. At the end of the month each column is footed and the addition proved to be correct.

The account in the illustration below shows the method of posting the total of the Notes Receivable, Dr. column of the notes receivable journal; the posting of the total of the Accounts Receivable, Cr. column is shown in the Accounts Receivable account page 425. The credit entry is the total of the Notes Receivable, Cr. column in the cash journal page 421.

Notes Receivable

PAGE 4

19							19					
June	1	Balance	✓	1681	17		June	30		6	19	2618 50
	30		NR 5	2881	63							

NOTES RECEIVABLE JOURNAL — PAGE 8

DATE OF PAPER YEAR	MONTH	DAY	TIME TO RUN	RATE OF INT	WHEN DUE YEAR	JAN (1)	FEB (2)	MAR (3)	APR (4)	MAY (5)	JUNE (6)	JULY (7)	AUG (8)	SEPT (9)	OCT (10)	NOV (11)	DEC (12)	WHERE PAYABLE	REMARKS
19	May	3	30 day		19						2							City Natl Bank	Paid June 2
19	May	17	60 "		19							16						First Natl Bank	
19	May	30	30 "	6%	19						29							Union Bank Mansfield	Sent for collection 6/20 Paid June 29
19	May	31	60 "	6%	19							30						Springfield Trust Co	
19	June	1	30 "		19							1						Their office	Paid June 28
19	June	2	30 "	6%	19							2						State Bank Moorestown	Paid June 26
19	June	7	20 "		19						27							City Natl Bank	Paid June 27
19	June	15	60 "	6%	19								17					Third Natl Columbus	
19	June	25	30 "	6%	19							25						Frederick Savings Bk	

Illustration 80, Notes Receivable Journal (Right Page)

NOTES PAYABLE JOURNAL — PAGE 3

DATE OF PAPER YEAR	MONTH	DAY	TIME TO RUN	RATE OF INT	WHEN DUE YEAR	JAN (1)	FEB (2)	MAR (3)	APR (4)	MAY (5)	JUNE (6)	JULY (7)	AUG (8)	SEPT (9)	OCT (10)	NOV (11)	DEC (12)	WHERE PAYABLE	REMARKS
19	Apr	12	90 days		19							11						City Natl Bank	
19	Apr	28	30 "		19					28								" " "	Paid May 27
19	Apr	29	30 "		19					29								" " "	Paid May 29
19	May	1	30 "		19					31								City Natl Bank	Paid May 31
19	May	2	30 "		19						2							" " "	Paid June 4
19	May	16	15 "		19					31								" " "	Paid May 31
19	May	22	30 "		19						21							" " "	Paid June 22
19	May	25	30 "		19						24							" " "	Paid June 24
19	May	31	30 "	6%	19						30							" " "	Paid June 30
19	June	5	60	6%	19								4					City Natl Bank	
19	June	11	30 "		19							11						" " "	
19	June	15	60 "	6%	19								14					" " "	
19	June	22	30 "		19							22						" " "	
19	June	29	90 "		19									27				" " "	

Illustration 81, Notes Payable Journal (Right Page)

Notes Payable Journal. When the transactions with notes payable are numerous, the notes payable register may be used as a book of original entry in which case it is known as a *notes payable journal.* The use of the notes payable journal avoids the necessity of recording each note payable in the general journal as explained in connection with the notes receivable journal.

The notes payable journal, Illustration 81, contains a record of the notes and acceptances issued by the Ault Grocery Company during the months of April, May, and June. Three amount columns are provided for (a) face of the note, (b) accounts payable ledger, and (c) general ledger. When a note issued is to be debited to an account in the general ledger, the face is entered in the Notes Payable, Cr. and General Ledger, Dr. columns. When the note

is issued to a creditor or a draft is accepted, the face is entered in the Notes Payable, Cr. and Accounts Payable, Dr. columns.

Posting the Notes Payable Journal. Each amount entered in the Accounts Payable, Dr. column is posted to the debit of the account in the accounts payable ledger written on the same line with it; this posting is daily. Each amount entered in the General Ledger, Dr. column is posted to the debit of the account in the general ledger written in the Account Debited column; this posting is daily. At the end of the month, the three columns are footed and the addition proved to be correct.

The account in the illustration below shows the method of posting the total of the Notes Payable, Cr. column of the notes payable journal; the posting of the total of the Accounts Payable, Dr. column is shown in the Accounts Payable account, page 424. The debit entry is the total of the Notes Payable, Dr. column in the cash journal, page 421.

Notes Payable PAGE 33

19				19			
June 30	C 19	1833 25		June 1	Balance	✓	4333 25
				30		NP 3	4610 65

Journal Voucher. The written authority for an entry in the general journal which may or may not be supported by a business paper received in the usual course of business is referred to as a *journal voucher*. Journal vouchers are usually used to support entries of a special nature which require authority for recording. Each journal voucher is numbered numerically and signed by the one authorized to issue it.

The illustration below shows a journal voucher issued by the Ault Grocery Company. The purpose is explained in the voucher. This gives authority to

Ault Grocery Co. VOUCHER No. 15

Journal Voucher

Approved for Entry A. L. Boyd, Gen Auditor Date June 16, 19

Entered by W. O. Dale, G L Bkkpr. Journal Folio 3

Debit:	Delivery Equipment	500	00
Credit:	Unissued Capital Stock	500	00

Explanation: Five shares of stock (par value $100.00) issued in payment for a used Reo truck for use in the delivery department.

Illustration 82, Journal Voucher

the general ledger bookkeeper to record the transaction as directed. The vouchers will be filed numerically for reference when auditing. If desired, journal vouchers may be used in place of the general journal in which case they are filed in a binder and the information is posted from the journal voucher.

Special Column Petty Cash Book. As explained in Chapter XXX, the purpose of the petty cash book is to provide a record of the cash payments from the petty cash fund. The petty cash fund provides a means of making small payments with currency.

The petty cash book, as previously illustrated, may contain only two columns, one for receipts to replenish the fund and the other for payments from the fund, or it may contain special columns. The purpose of special columns is to facilitate recording the total payments in the general cash book.

The illustration below shows a petty cash book with one amount column for receipts, three amount columns for three separate expense accounts and one amount column for expenditures of a general nature.

PETTY CASH BOOK

DATE		EXPLANATION	RECEIPTS	PAYMENTS				
				MISC SELLING EXP.	DELIVERY EXP.	MISC GEN EXP	SUNDRY ACCOUNTS	
19 Oct.	1	Check No. 162	25 —					
	1	Telegrams				1 65		
	2	Messenger			60			
	3	Wages of extra sales clerk					Sales Salaries	4 50
	8	Entertaining a customer		4 25				
	10	Notary fee				90		
	11	Messenger			1 25			
	16	Ad in S. S. News		2 50				
	16	Special delivery stamps					Office Supplies	4 —
	17	Repairing tire			1 —			
			25 —	6 75	2 85	2 55		8 50
Nov.	17	Balance	4 35					
	17	Check No. 210	20 65					

Illustration 83, Petty Cash Book

The method of recording the check issued to replenish the petty cash fund is shown in the last entry in the cash journal on pages 420 and 421. The information on the check stub should show the accounts to be debited for the expenditures recorded in the petty cash book.

Accounts with Traveling Salesmen. When merchandise is sold through traveling salesmen, it is customary for the employer to supply funds for traveling expenses. Each salesman reports weekly or monthly the expenditures from the funds advanced. The salesman is debited in an account with him for funds advanced, and credited with the expenditures reported; the title of the account to which these expenditures are debited is *Traveling*

Expenses. Salaries paid to traveling salesmen are debited to an account with the title *Traveling Salesmen's Salaries* or *Salaries of Road Men.* Traveling expense and traveling salesmen's salaries are a part of the selling expenses and shown as such on the Profit and Loss Statement. The accounts which contain a record of the expenses are closed into the Profit and Loss Summary account. Expense funds in the hands of traveling salesmen at the close of the fiscal period are shown as deferred charges on the Balance Sheet.

Exercise 155, Recording Transactions

(ORAL OR WRITTEN)

State the entry, in journal form, for each of the following transactions. As explanation of the entry, give the title of the journal illustrated in this chapter in which the transaction would be recorded. Indicate in connection with the account title the column number from left to right in which the amount would be recorded.

(1) Paid main store rent, $400.00, and branch store rent, $200.00.

(2) Purchased from Alson & Son, on credit, merchandise $450.00, $150.00 for the branch store and $300.00 for the main store.

(3) Paid branch store weekly pay roll $275.00.

(4) Received from G. L. Bray, $291.00 in full of account, $300.00, less 3% discount.

(5) Sold Miller Bros., on credit, merchandise $216.50.

(6) Paid Duncan Bros. $588.00, invoice $600.00, less 2%.

(7) Issued check No. 767 in payment for weekly pay roll $662.00; $216.00 office salaries, $327.00 sales salaries, and $119.00 drivers' wages.

(8) Accepted 60-day trade acceptance for $627.50 drawn by the Banks Grocery Company for purchase of May 11.

(9) Credited J. L. Lucas, with $12.65, merchandise returned.

(10) Paid note due today, face value $1,000.00.

Exercise 156, Journal Entries from the Cash Journal

Record in general journal form each transaction recorded in the cash journal illustrated on pages 420 and 421. Use the account titles stated in the name of the account column or at the top of each amount column. Analyze each transaction from the information given in the explanation column at the extreme right on page 421 in the manner described at the bottom of this page. The explanation of each general journal entry should be a statement of the transaction completed.

PRACTICE SET 5

A narrative of the transactions is provided in connection with the special ruled blanks required for recording the transaction. Full information regarding the work to be done in this practice set is given in connection with the business papers which represent the transactions or in connection with the narrative of the transactions if the business papers are not used.

CHAPTER XXXVI

BALANCE SHEET AND PROFIT AND LOSS STATEMENT FOR A CORPORATION

The purpose and form of the Balance Sheet and the Profit and Loss Statement are discussed and illustrated in preceding chapters. This chapter provides a further discussion of these statements and gives special attention to the method of showing on the reports the proprietorship and the net profit of a corporation.

Transactions. In the operation of a corporation, transactions will be completed with (a) stockholders, and (b) creditors, customers and others with whom the corporation does business. The nature of all transactions completed by a corporation, except those with stockholders, is the same as those completed in a similar business operated as a sole proprietorship or a partnership. At the beginning of each fiscal period the account balances in the general ledger stated in equation form usually are:

ASSETS = LIABILITIES + CAPITAL STOCK + SURPLUS

Each transaction completed during a fiscal period affects either (a) the assets, (b) the liabilities, (c) the assets and liabilities, (d) assets and proprietorship, (e) proprietorship, (f) assets and income or expense, or (g) the liabilities and income or expense. Each transaction is recorded so as to show its effect on assets, liabilities and proprietorship as follows:

DEBITS	CREDITS
(1) Increases in assets.	(1) Decreases in assets.
(2) Decreases in liabilities.	(2) Increases in liabilities.
(3) Decreases in proprietorship.	(3) Increases in proprietorship.
(4) Increases in expense.	(4) Decreases in expense.
(5) Decreases in income.	(5) Increases in income.

Trial Balance. At the close of each month a Trial Balance is prepared from the general ledger to prove the equality of debits and credits recorded therein, and the subsidiary ledgers are proved in the manner explained in previous discussions.

The Trial Balance in the first two columns of the Working Sheet on page 433 was prepared from the ledger of the Ault Grocery Co. at the end of the monthly fiscal period, June 30; these account balances result from posting the books of original entry illustrated in the preceding chapter. This Trial Balance includes all open accounts on the ledger and the closed accounts which will be required for recording the expenses and income because of supplies, insurance, depreciation, accruals and profit on Branch Store.

Working Sheet. The purpose of the Working Sheet is to ascertain present proprietorship, net profit and proof of their correctness, before reporting these facts to the board of directors and stockholders on the Balance Sheet and Profit and Loss Statement. The Working Sheet on page 433 was prepared from the account balances on the Trial Balance in the first two columns and the following data available at the close of the fiscal period, June 30:

Merchandise inventory, $31,974.09; branch store inventory, $8,458.72; office supplies inventory, $198.60; postage inventory, $38.45; warehouse supplies inventory, $87.19; expired insurance, $52.30 ($11.75 of this amount is on delivery equipment); accrued interest on notes receivable, $3.41; prepaid interest on notes payable, $45.67; accrued interest on notes payable, $5.94; depreciation on warehouse equipment, $1.15; depreciation on office equipment, $2.75; depreciation on delivery equipment, $100.00; reserve for bad debts, $16.79.

The method of ascertaining present proprietorship, net profit and proof of their correctness as set forth in the illustration is the same as explained in connection with other Working Sheets illustrated in previous chapters. The use of the Trading columns in the illustration and method of adjusting the Branch Store and Capital accounts are briefly explained as follows:

Trading Columns. No adjustment is made for the merchandise inventory of June 30 in the Adjustments columns because the Trading columns are provided for summarizing the trading account balances. The June 30 inventory is entered in the Assets column because it is an asset, and in the Trading, Cr. column to indicate subtraction from the total purchases. Debit balances of trading accounts are entered in the Trading, Dr. column, and credit balances, in the Trading, Cr. column. With this information recorded in the Trading columns, the difference between the total credits and total debits is the gross profit on sales, also known as *gross trading profit.*

Branch Store. The Branch Store account has been *debited* for the assets transferred to the branch store which include merchandise and cash, and for the assets given to others for the branch store which include cash for rent, insurance, etc. The Branch Store account has been *credited* for assets received from it which include cash and returned merchandise. After having been debited and credited as described, the *debit* balance of the Branch Store account shows the value of the assets which should be on hand at the branch store if there has been no profit. If a physical inventory of these assets is greater than the debit balance of the account, the difference is the profit resulting from operating the store.

For the reason stated in the preceding paragraph, the branch store inventory is recorded in the Assets column on the Working Sheet and the debit balance of the account as shown on the Trial Balance subtracted from the inventory to ascertain the net profit, which is recorded in the Income column on a line with the Profit on Operations of Branch Store account. This new account will be opened in the general ledger so that the Branch Store account

(*Continued on page 434*)

Ault Grocery Company
Working Sheet, June 30, 19

NAME OF ACCOUNT	TRIAL BALANCE DR.	TRIAL BALANCE CR.	ADJUSTMENTS DR.	ADJUSTMENTS CR.	BALANCE SHEET ASSETS	BALANCE SHEET LIAB PROP	TRADING DR.	TRADING CR.	P. & L. STATEMENT EXP.	P. & L. STATEMENT INCOME
City National Bank	1214018				1214018					
Petty Cash	20-				20-					
Certificate of Deposit	5000-				5000-					
Notes Receivable	194430				194430					
Accrued Int. on Notes Rec.			341		341					
Accounts Receivable	1537014				1524159					
Reserve for Bad Debts		11214		1679						
Merchandise Inventory	2941627				3197409		2941627	3197409		
Branch Store	732587		113285		845872					
Office Supplies	32550			12690	19860					
Postage	12560			8715	3845					
Warehouse Supplies	15185			6466	8719					
Prepaid Insurance	26180			5230	20950					
Prepaid Int. on Notes Pay.			4567		4567					
J. C. Bell	6980				6980					
C. A. Norman	7235				7235					
Office Equipment	665-				62670					
Dep. Reserve for Office Equip.		3555		275						
Warehouse Equipment	275-				26135					
Dep. Reserve for Warehouse Equip.		1260		115						
Delivery Equipment	4800-				4020-					
Dep. Reserve for Delivery Equip.		680-		100-						
Notes Payable		711065				711065				
Accrued Int. on Notes Pay.				594		594				
Accounts Payable		1404774				1404774				
Capital Stock		100000-				50600-				
Unissued Capital Stock	49400-									
Surplus		471524				471524				
Sales		1678532						1678532		
Sales Returns and Allowances	8763						8763			
Purchases	1101247						1101247			
Freight In	81785						81785			
Purchases Returns and Allowances		5970						5970		
Sales Salaries	886-								886-	
Traveling Expense	86735								86735	
Warehouse Expense	6790								6790	
Warehouse Supplies Used			6466						6466	
Dep. on Warehouse Equip.			115						115	
Miscellaneous Selling Expense	3585								3585	
Drivers' Wages	286-								286-	
Dep. on Delivery Equipment			100-						100-	
Expired Ins. on Delivery Equip.			1175						1175	
Miscellaneous Delivery Expense	675								675	
Rent	450-								450-	
Office Salaries	1460-								1460-	
Office Supplies Used			12690						12690	
Postage Used			8715						8715	
Dep. on Office Equipment			275						275	
Expired Insurance			4055						4055	
Miscellaneous Office Expense	8675								8675	
Loss on Bad Debts			1679						1679	
Profit on Operation of Branch Store				113285						113285
Purchases Discount		29988								29988
Interest Income		3211		341						3552
Sales Discount	19286								19286	
Interest Expense	6976		594	4567					2943	
Donations	200-								200-	
	4389093	4389093	163957	163957	8041212	7147951	4133402	4881911	502034	1448535
Gross Trading Profit							748489			748489
Net Profit						393255			393255	6953114
					8041212	8041212	4881911	4881911	895314	8953114

Illustration 84, Working Sheet

"Exhibit A"

AULT GROCERY COMPANY

BALANCE SHEET, JUNE 30, 19 .

Assets			
Current Assets:			
City National Bank		12140.18	
Petty Cash		20.00	
Certificate of Deposit		5000.00	
Notes Receivable . (Schedule 1)		1944.30	
Accrued Interest on Notes Receivable		3.41	
Accounts Receivable (Schedule 2)	15370.84		
Less Reserve for Bad Debts	128.93	15241.91	
Merchandise Inventory (Schedule 3)		31974.09	
Branch Store . (Schedule 4)		8458.72	
Total Current Assets			74782.61
Deferred Assets:			
Office Supplies . (Schedule 5)		198.60	
Postage		38.45	
Warehouse Supplies (Schedule 6)		87.19	
Prepaid Insurance . (Schedule 7)		209.50	
Prepaid Interest on Notes Payable		45.67	
J. C. Bell		69.80	
C. A. Norman		72.35	
Total Deferred Assets			721.56
Fixed Assets:			
Office Equipment . (Schedule 8)	665.00		
Less Depreciation Reserve	38.30	626.70	
Warehouse Equipment . (Schedule 9)	275.00		
Less Depreciation Reserve	13.75	261.25	
Delivery Equipment . (Schedule 10)	4800.00		
Less Depreciation Reserve	780.00	4020.00	
Total Fixed Assets			4907.95
Total Assets			80412.12
Liabilities and Proprietorship			
Liabilities:			
Notes Payable . (Schedule 11)		7110.65	
Accrued Interest on Notes Payable		5.94	
Accounts Payable . (Schedule 12)		14047.74	
Total Liabilities			21164.33
Proprietorship:			
Capital Stock Authorized	100,000.00		
Capital Stock Unissued	49.400.00		
Capital Stock Outstanding		50600.00	
Surplus		8647.79	
Total Proprietorship			59247.79

Illustration 85, Balance Sheet

will not show both assets and profit. In making the adjustments in the Adjustments columns, the profit on branch store operations is entered as a debit to the Branch Store account so that this account will show the asset value, and as a credit to an account with Profit on Operations of Branch Store to record the profit in a special income account.

Proprietorship Accounts. The proprietorship of the Ault Grocery Co. is recorded in the Capital Stock, Unissued Capital Stock, and Surplus accounts.

(*Continued on page 436*)

"Exhibit B" AULT GROCERY COMPANY

PROFIT AND LOSS STATEMENT FOR MONTH ENDING JUNE 30, 19 .

Income from Sales:			
Gross Sales		16785.32	
Deduct Sales Returns and Allowances		87.63	
Net Sales			16697.69
Cost of Merchandise Sold:			
Merchandise Inventory, June 1		29416.27	
Purchases	11012.47		
Deduct Returns and Allowances	59.70		
Net Purchases		10952.77	
Freight In		817.85	
Cost of Mdse. Available for Sale		41186.89	
Less Inventory, June 30		31974.09	
Cost of Merchandise Sold			9212.80
Gross Profit on Sales			7484.89
Operating Expenses:			
Selling Expenses:			
Sales Salaries	886.00		
Traveling Expense	867.35		
Warehouse Expense	67.90		
Warehouse Supplies Used	64.66		
Dep. on Warehouse Equipment	1.15		
Miscellaneous Selling Expense	35.85		
Drivers Wages	286.00		
Dep. on Delivery Equipment	100.00		
Expired Insurance on Del. Equip.	11.75		
Misc. Delivery Expense	6.75		
Total Selling Expenses		2327.41	
General Expenses:			
Rent	450.00		
Office Salaries	1460.00		
Office Supplies Used	126.90		
Postage Used	87.15		
Dep. on Office Equipment	2.75		
Expired Insurance	40.55		
Miscellaneous Office Expense	86.75		
Loss on Bad Debts	16.79		
Total General Expenses		2270.89	
Total Operating Expenses			4598.30
Net Profit from Operations			2886.59
Other Income:			
Profit on Operation of Branch Store		1132.85	
Purchases Discount		299.88	
Interest Income		35.52	
Total Other Income			1468.25
Gross Income			4354.84
Deductions from Income:			
Sales Discount		192.86	
Interest Expense		29.43	
Donations		200.00	
Total Deductions from Income			422.29
Net Profit			3932.55

Illustration 86, Profit and Loss Statement

When preparing a Working Sheet, it is customary to enter account balances in the Balance Sheet columns so that the total of the Assets column will equal the total assets, and the Liabilities and Proprietorship column, the total liabilities and proprietorship. For this reason, the credit balance of the Capital Stock account and the debit balance of the Unissued Capital Stock account are not both extended but the difference between the two is extended into the Proprietorship column. Surplus is a part of the proprietorship hence the balance of the Surplus account is extended into the Proprietorship column.

Proof. The adjustments in the Adjustments columns are made in the same manner as explained in previous illustrations and each account balance is extended into the appropriate column at the right of the Adjustments columns. The difference between the totals of the debit and credit Trading columns is extended into the Income column because it is the profit resulting from the sale of merchandise. Proof is secured in the same manner as in previous illustrations. The total of the Assets column minus the total of the Liabilities and Proprietorship column equals the net profit, and the total of the Income column minus the total of the Expense column equals the net profit.

Balance Sheet. As explained at the beginning of this chapter, the Balance Sheet provides the same information for the board of directors and the stockholders in a corporation as it does for the owner of a sole proprietorship or the partners in a partnership. The Balance Sheet on page 434, which was prepared from the Balance Sheet columns of the Working Sheet on page 433, contains detailed information concerning current, deferred and fixed assets, current liabilities and proprietorship of the Ault Grocery Co. on June 30, the close of the fiscal period. The information in this Balance Sheet will provide the individual stockholder with information for ascertaining the book value of the stock he owns.

The various schedules mentioned in connection with the current, fixed and deferred assets are not illustrated but will accompany the Balance Sheet for the information of the board of directors.

Profit and Loss Statement. As explained at the beginning of this chapter, the Profit and Loss Statement of a corporation provides the same information for the board of directors in a corporation as the same type of statement prepared for the owner of a sole proprietorship or the partners in a partnership. The Profit and Loss Statement on page 435, which was prepared from the Trading and Profit and Loss Statement columns on the Working Sheet on page 433, contains detailed information regarding the income and operating expenses for the monthly fiscal period of June.

The net profit, $3,932.55, is the income earned as a result of the operations of the business. It is not, however, the amount that will be reported for income tax purpose because the Treasury Department has ruled that donations by a corporation cannot be regarded as an operating expense. For this reason, the income reported to the Government will be $200.00 more than that reported to the board of directors.

The Profit and Loss Statement as well as the Balance Sheet will be of assistance to the board of directors in controlling future operations of the corporation. The individual stockholder will not need the information on the Profit and Loss Statement for ascertaining his interest in the corporate

proprietorship though he may be provided with a copy so that he may know the reason for the increase or decrease in the value of his stock.

Adjusting Entries. The entries on this and the following page are those necessary to record in the general journal the adjustments in the Adjustments columns of the Working Sheet, page 433. When these entries are

June 30, 19

5	Accrued Interest on Notes Receivable		3 41	
54	Interest Income			3 41
	To record the accrued interest on notes receivable			
	30			
51	Loss on Bad Debts		16 79	
7	Reserve for Bad Debts			16 79
	To record the reserve for bad debts			
	30			
9	Branch Store			
52	Profit on Operation of Branch Store		1 13 285	
	To record the profit on operation of branch store			1 13 285
	30			
46	Office Supplies Used		126 90	
47	Postage Used		87 15	
37	Warehouse Supplies Used		64 66	
10	Office Supplies			126 90
11	Postage			87 15
12	Warehouse Supplies			64 66
	To record the expense resulting from supplies used			
	30			
42	Expired Insurance on Delivery Equipment		11 75	
49	Expired Insurance		40 55	
13	Prepaid Insurance			52 30
	To record the expense resulting from expired insurance			
	30			
14	Prepaid Interest on Notes Payable		45 67	
56	Interest Expense			45 67
	To record the prepaid interest on notes payable			

Illustration 87, Adjusting Entries

June 30, 19

48	Depreciation on Office Equipment	2 75		
38	Depreciation on Warehouse Equipment	1 15		
41	Depreciation on Delivery Equipment	100 —		
18	Depreciation Reserve for Office Equipment			2 75
20	Depreciation Reserve for Warehouse Equipment			1 15
22	Depreciation Reserve for Delivery Equipment			100 —
	To record the depreciation on equipment			
	30			
56	Interest Expense	5 94		
24	Accrued Interest on Notes Payable			5 94
	To record the accrued interest on notes payable			

Illustration 87, Adjusting Entries

When posting the debits in the entries to record the supplies used, expired insurance and depreciation, the amounts may be recorded direct in the Profit and Loss Summary account instead of in separate expense accounts; if posted as suggested, the title of each account is entered in the explanation column of the summary account. When the plan suggested is followed, these account balances will be omitted from the closing entries. The final results are the same with either process.

posted, the account balances in the ledger will be the same as they would appear in the Adjusted Trial Balance columns of the Working Sheet had they been provided in Illustration 84 as in Illustration 63, page 347.

Closing Entries. The journal entries on pages 439 and 440 are those necessary to close the ledger of the Ault Grocery Co. These entries are made in two sections, (a) to close the trading account balances in the Trading columns, and (b) to close the expense and income account balances in the Profit and Loss Statement columns. As explained in Chapter XXII, the trading accounts may be closed into a Trading account and the balance of this account closed into the Profit and Loss Summary account or all the account balances may be summarized in the one Trading, Profit and Loss Summary account.

The first entry at the top of page 439 is to close the trading accounts with a debit balance as recorded in the debit Trading column. The second entry on this page is to record the merchandise inventory June 30 and the trading accounts with a credit balance. The third entry on this page is to close the balance of the Trading account into the Profit and Loss Summary account; if the trading accounts had been closed into a division of the Trading, Profit and Loss Summary account, this entry would not have been required.

The fourth entry on page 439 and the entries on page 440, with the exception of the last entry, are those necessary to close the accounts in the Profit and Loss Statement columns. Five separate entries are made to close (a) the selling expense accounts, (b) the general expense accounts, (c) the

Profit on Operation of Branch Store account, (d) the non-operating income accounts, and (e) the non-operating expense accounts.

June 30, 19

58	Trading				41	33	42	22				
8	Merchandise Inventory								29	41	62	7
31	Purchases								11	01	24	7
32	Freight In									81	78	5
30	Sales Returns and Allowances										87	63
	To close the accounts with a debit balance into the Trading account											
	30											
8	Merchandise Inventory				31	97	40	9				
29	Sales				16	78	53	2				
33	Purchases Returns and Allowances						59	70				
58	Trading								48	81	91	1
	To close the accounts with a credit balance into the Trading account											
	30											
58	Trading					74	84	89				
58	Profit and Loss Summary									74	84	89
	To close the Trading account into the Profit and Loss Summary account											
	30											
58	Profit and Loss Summary					23	27	41				
34	Sales Salaries										88	6
35	Traveling Expense										86	735
36	Warehouse Expense										67	90
37	Warehouse Supplies Used										64	66
38	Depreciation on Warehouse Equipment											115
39	Miscellaneous Selling Expense										35	85
40	Drivers' Wages										28	6
41	Depreciation on Delivery Equipment										10	0
42	Expired Insurance on Delivery Equipment										11	75
43	Miscellaneous Delivery Expense										6	75
	To close the selling expense accounts											

Illustration 88, Closing Entries

June 30, 19

58	Profit and Loss Summary	227089	
44	Rent		45000
45	Office Salaries		146000
46	Office Supplies Used		12690
47	Postage Used		8715
48	Depreciation on Office Equipment		275
49	Expired Insurance		4055
50	Miscellaneous Office Expense		8675
51	Loss on Bad Debts		1679
	To close the general expense accounts		
	30		
52	Profit on Operation of Branch Store	113285	
58	Profit and Loss Summary		113285
	To close the Profit on Operation of Branch Store account		
	30		
53	Purchases Discount	29988	
54	Interest Income	3552	
58	Profit and Loss Summary		33540
	To close the Purchases Discount and Interest Income accounts		
	30		
58	Profit and Loss Summary	42229	
55	Sales Discount		19286
56	Interest Expense		2943
57	Donations		20000
	To close the Sales Discount, Interest Expense and Donations accounts		
	30		
58	Profit and Loss Summary	393255	
28	Surplus		393255
	To close the Profit and Loss Summary account		

Illustration 88, Closing Entries

Entry to Close the Profit and Loss Summary Account. The concluding entry above is to close the Profit and Loss Summary account into the Surplus account. This is the only entry in closing the ledger of a corporation which differs from the closing entries for a sole proprietorship or partnership.

Classification of Accounts. The account titles in the list below are those contained on the ledger of the Ault Grocery Co. and the accounts discussed in preceding chapters. The classification in each group is stated in the title of the group. An account title preceded by a minus sign is described as a "minus" in the group to which it is applicable. Thus, "Reserve for Bad Debts" is classified as a minus current asset; "Purchases Returns and Allowances", as a minus cost of merchandise sold.

BALANCE SHEET ACCOUNTS

CURRENT ASSETS
- Cash (City National Bank)
- Petty Cash
- Securities
- Notes Receivable
- Accrued Interest on Notes Receivable
- Accounts Receivable
- −Reserve for Bad Debts
- Subscriptions Receivable
- Merchandise Inventory (ending)
- Branch Store

DEFERRED ASSETS
- Office Supplies
- Postage
- Warehouse Supplies
- Prepaid Insurance
- Prepaid Interest on Notes Payable
- Funds in Hands of Salesmen

FIXED ASSETS
- Office Equipment
- −Depreciation Reserve for Office Equip.
- Warehouse Equipment
- −Dep. Res. for Warehouse Equipment
- Delivery Equipment
- −Dep. Res. for Delivery Equipment

INTANGIBLE ASSETS
- Goodwill
- Organization Expense
- Patent Rights

CURRENT LIABILITIES
- Notes Payable
- Accrued Interest on Notes Payable
- Accounts Payable
- Accrued Expenses

FIXED LIABILITIES
- Bonds Payable

PRIPRIETORSHIP
- Capital Stock
- Capital Stock Subscribed
- −Unissued Capital Stock
- −Treasury Stock
- Capital Surplus
- Surplus

P. AND L. STATEMENT ACCOUNTS

OPERATING INCOME
- Sales
- −Sales Returns and Allowances

COST OF MERCHANDISE SOLD
- Merchandise Inventory (beginning)
- Purchases
- Freight In
- −Purchases Returns and Allowances

SELLING EXPENSES
- Sales Salaries
- Salaries of Traveling Men
- Traveling Expense
- Warehouse Expense
- Warehouse Supplies Used
- Depreciation on Warehouse Equipment
- Miscellaneous Selling Expense

DELIVERY EXPENSE
- Drivers Wages
- Depreciation on Delivery Equipment
- Expired Insurance on Delivery Equip.
- Miscellaneous Delivery Expense

GENERAL EXPENSES
- Rent
- Office Salaries
- Office Supplies Used
- Postage Used
- Depreciation on Office Equipment
- Expired Insurance
- Miscellaneous Office Expense
- Loss on Bad Debts

NON-OPERATING INCOME
- *Profit on Operations of Branch Store
- Purchases Discount
- Interest Income

NON-OPERATING EXPENSE
- Sales Discount
- Interest Expense
- †Donations

*This may be classified as an operating income if desired.

†Donations refer to amounts donated by the corporation for charitable purposes. For income tax purpose donations by a corporation can not be deducted as an expense. If desired, the balance of the Donations account may be closed direct into the Surplus account.

Exercise 157, Working Sheet and Reports

(ORAL OR WRITTEN)

1. If it is desired to provide columns on the Working Sheet for the (a) Trial Balance, (b) Adjustments, (c) Adjusted Trial Balance, (d) Trading, (e) Balance Sheet, (f) Profit and Loss Statement, (g) Closing Entries, and (h) Post-closing Trial Balance, how many columns will be required?

2. In the Working Sheet referred to in the previous question what information will be recorded in the (a) Adjustments columns? (b) Adjusted Trial Balance columns? (c) Trading columns?

3. The sales recorded in the Trading Cr. column are $44,500.00. How will this appear in the columns which contain the closing entries?

4. When the branch store is debited for assets transferred to it and credited for assets received from it, what will the balance show?

5. The debit balance of the Branch Store account is $20,000.00; inventory of assets on hand at the branch, $30,000.00. What is the profit or loss?

6. The debit balance of the Branch Store account is $6,000.00; inventory of assets on hand at the branch, $4,000.00. What is the profit or loss?

7. The balance of the Capital Stock account is $50,000.00; Unissued Capital Stock account, $5,000.00; and Treasury Stock account, $1,000.00. What is the par value of the capital stock outstanding?

8. J. L. Brown is a traveling salesman for the Rex Shoe Co. His compensation is a salary of $500.00 per month; the company pays his traveling expenses. State the journal entries to record on the books of the Rex Shoe Co. each of the following transactions with J. L. Brown during the month of January.

(a) 2. Gave J. L. Brown check for $300.00, traveling expenses.

(b) 31. Received from J. L. Brown report of expenses for the month, $265.50.

(c) 31. Gave J. L. Brown check for $500.00, monthly salary.

(d) What is the amount of the unexpended expense fund January 31?

(e) With what class of assets will the balance of the unexpended expense fund be shown on the Balance Sheet prepared, January 31?

Exercise 158, Closing Entries

Restate on a sheet of journal paper the closing entries on pages 439 and 440 so that when posted the account balances will all be summarized in a Trading, Profit and Loss Summary account and post these entries to the Trading, Profit and Loss Summary account similar in form to the account at the bottom of the next page.

Exercise 159, Balance Sheet

The account balances stated at the top of page 443 appear on the Post-closing Trial Balance of the Brand Mercantile Co. at the close of the fiscal period, June 30.

City National Bank, $17,995.58; Petty Cash, $20.00; Securities, $5,000.00; Notes Receivable, $1,425.70; Accrued Interest on Notes Receivable, $4.76; Accounts Receivable, $12,976.50; Reserve for Bad Debts, $120.76; Merchandise Inventory, $25,324.72; Branch Store, $8,325.40; Office Supplies, $142.75; Postage, $45.50; Warehouse Supplies, $98.45; Prepaid Insurance, $220.50; Prepaid Interest on Notes Payable, $35.20; Funds in Hands of Salesmen, $137.75; Office Equipment, $625.00; Depreciation Reserve for Office Equipment, $31.25; Warehouse Equipment, $325.75; Depreciation Reserve for Warehouse Equipment, $16.29; Delivery Equipment, $5,200.00; Depreciation Reserve for Delivery Equipment, $780.00; Goodwill, $3,785.00; Notes Payable, $5,420.75; Accrued Interest on Notes Payable, $5.24; Accounts Payable, $1,989.67; Mortgage Payable, $10,000.00; Capital Stock, $100,000.00; Unissued Capital Stock, $45,000.00; Surplus, $8,324.60.

Instructions. From the account balances stated above prepare a Balance Sheet showing the same information as the illustration on page 434.

Securities refer to temporary investments such as bonds and certificates of deposit. The purpose of these investments is to secure a better rate of interest than would be allowed on the daily bank balance.

Exercise 160, Profit and Loss Statement

The Profit and Loss Summary account in the illustration below appears on the ledger of the Brand Mercantile Company after the temporary proprietorship accounts have been summarized at the close of the fiscal period.

TRADING, PROFIT AND LOSS SUMMARY

19							19					
June	30	Mdse. Inv. (6/1)	J5	25324	72		June	30	Mdse. Inv. (6/30)	J5	27185	79
	30	Purchases	J5	10218	32			30	Sales	J5	16145	30
	30	Freight In	J5	620	75			30	Pur. R. and Allow.	J5	62	75
	30	Sales Ret. and Allow.	J5	79	30							
	30	*Profit on Sales*	√	*7150*	*75*							
				43393	84						43393	84
19							19					
June	30	Sales Salaries	J5	875	50		June	30	Profit on Sales	√	7150	75
	30	Traveling Exp.	J5	750	25			30	Profit on Opera. of Branch Store	J5	711	72
	30	Warehouse Exp.	J5	65	40			30	Pur. Discount	J5	170	55
	30	Ware. Sup. Used	J5	59	70			30	Int. Income	J5	40	57
	30	Dep. on Ware. E.	J5	3	26							
	30	Misc. Sell. Ex.	J5	32	78							
	30	Drivers Wages	J5	276	50							
	30	Dep. on Del. E.	J5	130	—							
	30	Exp. Ins. on Del. E.	J5	10	50							
	30	Misc. Del. Exp.	J5	8	75							
	30	Rent	J5	400	—							
	30	Office Salaries	J5	1375	—							
	30	Office Sup. Used	J5	116	75							
	30	Postage Used	J5	86	40							
	30	Dep. on Office E.	J5	2	60							
	30	Exp. Insurance	J5	41	80							
	30	Misc. Office Exp.	J5	84	30							
	30	Loss on Bad Debts	J5	32	29							
	30	Sales Discount	J5	187	61							
	30	Interest Expense	J5	32	40							
	30	Surplus	J5	3501	80							
				8073	59						8073	59

Instructions. (1) Prepare a Profit and Loss Statement.

(2) From the Profit and Loss Statement prepare the journal entries necessary to close the temporary proprietorship accounts.

CHAPTER XXXVII

LAND AND BUILDINGS

The method of recording rent expense when cash is paid for the use of a building has been explained in previous chapters. Frequently businesses own the building which they occupy and, therefore, do not pay rent, but they do have various expenses in connection with the ownership and maintenance of the property. The method of recording these expenses and of ascertaining the total rent expense is discussed in this chapter.

Real Estate. Land and the permanent improvements located thereon are known as *real property* or *real estate.* The asset real estate is referred to as one unit but for accounting purposes and usually for taxation purposes it consists of two units, (a) the land, and (b) the buildings and other permanent improvements located on the land. This division is necessary because the land will not have to be replaced because of depreciation but the building will eventually deteriorate to a point where it will be necessary to replace it with a new one.

Purchase of Real Estate. The merchant does not usually buy real estate for resale as he does merchandise but rather to provide a home for the business. Real estate purchased as a home for the business is one of the fixed assets of the business. When cash is paid for real estate, the transaction results in an increase in the asset land for the value of the land, an increase in the asset buildings, for the value of the buildings, and a decrease in the asset cash for the amount of cash paid. When a part of the purchase price is to be paid at a subsequent time, the amount of the deferred payment generally results in an increase in the liability mortgage payable, the indebtedness for real estate usually being secured by a mortgage on the property.

Maintenance of Real Estate. The usual expenses in connection with the ownership of real estate as a home for the business are (a) repairs, (b) real estate taxes, (c) expired insurance on buildings, (d) depreciation on the buildings, and (e) interest on deferred payments. The cost of repairs is usually debited to an account with Building Expense. The amount of taxes on the real estate is debited to the Real Estate Taxes account when paid or accrued at the close of the fiscal period. All expenditures for insurance are debited to an account with Prepaid Insurance; at the close of the fiscal period that part of the expired insurance applicable to the buildings is debited to an expense account with the title Expired Insurance on Buildings. The estimated depreciation on buildings is recorded at the close of each fiscal period in an

expense account with the title Depreciation on Buildings. The interest on deferred payments when paid, or accrued at the close of the fiscal period, is recorded as a debit to an account with Interest on Mortgage Payable.

A distinction must be made between expenditures which increase the value of the property and those which are necessary to maintain the usefulness of the property. Expenditures which increase the asset value of the property are known as *capital expenditures*. Expenditures which are necessary to maintain the usefulness of the property are known as *revenue expenditures*, and are considered expenses for the period in which they occur. All small items, even though they increase the value of the property are ordinarily considered to be revenue expenditures.

May 1. The Dix Laundry, a corporation, purchased for $20,000.00 (land $8,500.00, building $11,500.00) the real estate at 517 Third Street, as a home for the business. Paid $5,000.00 in cash and executed a mortgage due in three years with interest at 6% for the balance.

This transaction results in an increase in the asset land and the asset building, a decrease in the asset cash and an increase in the liability mortgage payable. The journal entry at the right and the cash book entry below show the method of recording this capital expenditure and the liability incident to the purchase of real estate. The Land account is debited to record the increase in the asset land, the Building account debited to record the increase in the asset building, the Cash account credited to record the decrease in the asset cash and the Mortgage Payable account credited to record the increase in liabilities.

May 1, 19

	Land	8500 —	
	Building	11500 —	
√	Cash		5000 —
	Mortgage Payable		15000 —
	Purchased real estate at 517 Third St.		

CASH

19					Payments
May	1	√	Land and Building	See journal, page 445	5000 —

The title "Land and Building" is used because the part payment is applicable to both. Check marks are used in the general journal and cash book entries to avoid double posting.

May 2. Paid $96.00 for insurance on the building.

This transaction results in an increase in the asset prepaid insurance, $96.00, and a decrease in the asset cash for the same amount. The entry to record this transaction is:

CASH

19					Payments
May	2		Prepaid Insurance	Insurance register, page 21	96 —

Reference is made to the insurance policy register page in the entry at the bottom of page 445 because the record in this register contains full information regarding the insurance policy.

May 5. Gave the Levine Construction Company check for $2,250.00 in payment for constructing a new front and placing the building in condition for occupancy, as per terms of the contract.

This is a capital expenditure since it increases the asset value of the property. The entry in the cash book to record this transaction is:

			CASH		Payments
19					
May	5	Building	Levine contract		2250 —

As a copy of this contract is on file for reference, it is not necessary to describe the nature of the expenditure in the cash book entry.

July 15. Paid James Olson, carpenter, $22.50 for repairing floors in the building.

This is a revenue expenditure. Expenses of this kind are necessary to maintain the usefulness of the building. The entry in the cash book to record this transaction is:

			CASH		Payments
19					
July	15	Building Expense	Repairing floors		22 50

At the close of the quarterly fiscal period July 31, the estimated accrued taxes on real estate was $126.25; the accrued interest on mortgage payable, $225.00; the expired insurance on the building, $24.00; and the estimated depreciation (rate 2% a year), $68.75.

The entry to record these accruals, the expired insurance and the depreciation is in the illustration at the right. Each of the four expenses is recorded in an account with a title descriptive of the expense. The liabilities because of the accrued taxes and interest are recorded in liability accounts with descriptive titles. The decrease in the asset prepaid insurance is recorded as a credit to the Prepaid Insurance account and the decrease in the value of the building because of depreciation as a credit to the Depreciation Reserve for Buildings account.

July 31, 19		
Real Estate Taxes	126 25	
Interest on Mortgage Payable	225 —	
Expired Ins. on Building	24 —	
Depreciation on Building	68 75	
Accrued Taxes		126 25
Accrued Int. on Mort. Pay.		225 —
Prepaid Insurance		24 —
Dep. Reserve for Building		68 75
To record accrued taxes and interest on real estate, expired insurance and depreciation on building.		

The method of showing the details of rent expense on the Profit and Loss Statement for the Dix Laundry Co., July 31, is in the illustration at the right. The information in this illustration will appear on the Profit and Loss Statement in the same position as the Rent Expense account. This provides detailed information about the rent expense and the total.

Rent Expense:		
Real Estate Taxes	126 25	
Expired Insurance on Building	24 —	
Interest on Mortgage Payable	225 —	
Depreciation on Building	68 75	
Building Expense	22 50	
Total Rent Expense		466 50

Sale of Real Estate. A sale of real estate is a transaction in which the asset land decreases (cost price), the asset buildings decreases (book value), the asset cash or some other asset increases (sale price), and the proprietorship increases (amount of the profit); if a loss is incurred through the sale, the final effect of the transaction is a decrease in assets and proprietorship. The profit realized from a sale of real estate is credited to an account with Profit on Sale of Real Estate; a loss is debited to an account with Loss on Sale of Real Estate.

January 2. The Day Co. received $10,000.00 in cash and a mortgage for $14,000.00 due in three years for the real property at 411 Wall Street used as a home for the business. The cost price of the land was $12,000.00, the buildings $10,000.00 and the recorded depreciation applicable to the buildings $1,500.00.

This transaction results in an increase in the asset cash $10,000.00, an increase in the asset mortgage receivable $14,000.00, a decrease in the asset land $12,000.00, a decrease in the asset buildings $8,500.00 (book value) and an increase in the proprietorship $3,500.00. The general journal entry at the right and the cash book entry below show the method of recording this transaction. The first two debits record the increase in the assets and the third debit, subtraction from the recorded depreciation. The first two credits record the subtraction from the asset accounts in which the real estate is recorded and the third credit records the profit made by the sale.

January 2, 19

√	Cash	10000 —	
	Mortgage Receivable	14000 —	
	Dep. Res. for Buildings	1500 —	
	Land		12000 —
	Buildings		10000 —
	Profit on Sale of R. E.		3500 —
	Sold real property at 411 Wall St., cash, $10-000.00 and mortgage receivable, $14,000.00.		

CASH Receipts

19					
Jan.	2	√	Land and Buildings	See journal page 447	10000 —

Lease. The written contract between a business and the owner of real property for possession of the property rented for a specified time is known as a *lease*. A lease may be executed for any desired length of time and should be in writing; when executed for more than a year, a lease must be in writing. The owner of the real estate is known as the *lessor*, and the one to whom the property is leased as the *lessee*.

The amount of rent that the lessee is to pay the lessor as stated in the lease constitutes the rent expense of the lessee. If the terms of the lease require that the lessee pay for any improvements which are necessary in order to adapt the property to his needs or that he pay for repairs to maintain the usefulness, the actual rent cost of the lessee will be more than that stated in the lease.

Improvements are usually considered capital expenditures and these costs are distributed over the life of the lease. The ordinary current repairs are treated as revenue expenditures and are, therefore, shown in an expense account which is closed into the current Profit and Loss Summary account.

Illustrations. June 1. The Starr Drug Co. leased the building at the corner of 5th and Main Streets from B. A. Joyce for a period of 10 years beginning July 1 next, at a rental of $400.00 per month. June 2. Contracted with the Rex Construction Co. to make the needed changes in the building and have it ready for occupancy July 1, contract price, $2,400.00.

July 1. Gave B. A. Joyce check for $400.00, July rent.

This transaction results in an increase in the rent expense and a decrease in the asset cash. The entry to record this transaction is:

				CASH	Payments
19 July	1		Rent Expense	July rent	400—

July 1. Gave the Rex Construction Co. check for $2,400.00 as per contract.

It is quite evident that the full amount of this $2,400.00 will not be charged as rent expense for the month of July since the expense is necessary in order to occupy the building for ten years. For the reason stated, this transaction results in an increase in the asset building improvements for $2,400.00 and a decrease in the asset cash for the same amount. The entry to record the check is:

				CASH	Payments
19 July	1		Building Improvements	Reconditioning building	2400—

July 31. Recorded the building improvements cost applicable to the monthly fiscal period of July as rent expense.

The lease is for 10 years or 120 months, hence the monthly distribution of the $2,400.00 expenditure is $20.00. The entry in the illustration at the

left shows the general journal entry to record the increase in rent cost because 1/120 of the reconditioning cost is now an expense. The debit to the Rent Expense account records the increase in the rent expense and the credit to the Building Improvements account records the decrease in the asset.

July 31, 19			
Rent Expense		20 —	
Building Improvements			20 —
To record the building improvements expense applicable to July.			

Capital expenditures made at any time during a lease must be recorded as assets and distributed as expense over the remaining fiscal periods in the same manner as when made at the time the lease is executed.

Building Revenue. When the business does not need all the space in the building owned or leased and a part of this space is rented to others, the assets received for the use of this space constitute an income known as *building revenue*. This revenue is recorded in an account with *Building Revenue*.

SUMMARY

The Land Account is a record of the increases and decreases in the asset land because of transactions completed. This account is *debited* with the increases which include purchase price and other capital expenditures applicable to the land and *credited* with decreases which is the cost price of land when sold. The *debit* balance of the Land account is a fixed asset.

The Building Account is a record of the increases and decreases in the asset building because of transactions completed. This account is *debited* for the increases which include cost price and capital expenditures applicable to the buildings and *credited* at cost price when the building is sold. The *debit* balance of the Building account is a fixed asset.

The Depreciation Reserve for Building Account is a record of the estimated decrease in the value of the building because of depreciation. This account is *credited* at the close of each fiscal period for the estimated depreciation applicable to the building for that period; it is *debited* for the recorded depreciation when the building is sold. The *credit* balance of the Depreciation Reserve for Building account shows the amount to be deducted from the debit balance of the Building account to show the book value of the building.

The debit balance of the Land account, the debit balance of the Building account, and the Depreciation Reserve for Building account are shown on the Balance Sheet.

The Building Improvements Account is a record of the increases in capital expenditures to be distributed at the close of each fiscal period during the terms of a lease. This account is *debited* for improvement costs necessary to make the building more serviceable for the term of the lease; it is *credited* at the close of each fiscal period with that proportion of the capital expenditure which is to be charged as an expense. The *debit* balance of this account is a deferred charge.

The Depreciation on Building Account is a record of the expense because of the estimated decrease in the value of the building due to depreciation. This account is *debited* at the close of each fiscal period for the increase in expense because of depreciation for that period. The *debit* balance is shown on the Profit and Loss Statement as a part of the rent expense and closed into the Profit and Loss Summary account.

The Building Expense Account is a record of the cost for repairs of a minor nature which are regarded as expenses at the time the expenditure is made. This account is *debited* for increases in current expenses because of repairs. The *debit* balance is shown on the Profit and Loss Statement as a part of the rent expense and closed into the Profit and Loss Summary account.

The Real Estate Taxes Account is a record of the increase in tax expense because of taxes paid or accrued on real estate. This account is *debited* for taxes paid when the transaction is completed, or for taxes accrued at the close of the fiscal period. The *debit* balance is shown on the Profit and Loss Statement as a part of the rent expense and closed into the Profit and Loss Summary account.

The Interest on Mortgage Payable Account is a record of the interest paid on deferred payments applicable to the purchase of real estate. This account is *debited* with the increase in interest cost at the time the interest is *paid*, or at the close of the fiscal period with the accrued interest. The *debit* balance is shown on the Profit and Loss Statement as a part of the rent expense and closed into the Profit and Loss Summary account.

The Mortgage Payable account is of the same nature as Notes Payable in that it is credited with the face value of the mortgage when it is issued and debited with the face value of the mortgage when it is paid unless the mortgage is paid in installments in which case the Mortgage Payable account is debited with the amount of each installment.

The Building Revenue Account is a record of the income because of rent received for the use of the building. This account is *credited* for the rent collected. The *credit* balance is an income and is shown on the Profit and Loss Statement either as a deduction from the total expenses incident to the ownership of the building or as "other income." The balance of this account is closed into the Profit and Loss Summary account.

Exercise 161, Capital and Revenue Expenditures

(ORAL OR WRITTEN)

Designate the kind of expenditure (capital or revenue) in each transaction and state the reason for your classification.

1. Paid $12.50 for repairing a floor.
2. Paid $1,250.00 for an automobile to be used by a salesman.
3. Paid $2,000.00 for repairing a building rented on a ten year lease.
4. Paid $250.00 for painting a building leased for five years.
5. Paid $3.50 for revarnishing a desk.
6. Paid 75c for repairing a typewriter.
7. Paid $15,000.00 for real estate as a home for the business.

8. Paid $250.00 for attorney fees for purchase in No. 7.
9. Paid $875.50 for an addition to the building.
10. Paid $5.00 for replacing a broken lock.
11. Paid $2.50 repairs on a delivery truck.
12. Paid $2.50 for replacing broken window panes.

Exercise 162, Land and Buildings

Oct. 1. The Lee Bros. Co., a corporation, paid $12,500.00 for real estate (land $4,500.00, buildings $8,000.00) to be used as a home for the business.

During the remainder of the annual fiscal period, the following cash transactions because of the ownership of this real estate were completed:

Oct. 15. Paid $125.50 for painting and repairing the building.

Oct. 16. Paid $16.75 for repairing broken windows.

Nov. 1. Paid $126.00 insurance premium on building for three years.

Nov. 3. Paid $1,000.00 for erecting a new garage on the land.

Dec. 12. Paid $12.50 for repairing doors and windows.

Dec. 31. At the close of the fiscal period, recorded the accrued taxes on real estate $41.75, expired insurance on the building $7.00, and depreciation on the building, annual rate 4%. (Include depreciation on the garage for two months.)

Instructions. Record these transactions in the appropriate journals. Post the rent expenses and show the total rent expense as it will be shown on the Profit and Loss Statement.

Exercise 163, Leased Building

March 10. The May Co. leased the building at the corner of Main and Sixth Streets for 10 years beginning with July 1 next, annual rental $10,000.00, payable quarterly. During the first year the following transactions were completed:

July 1. Paid first quarter rent by check, $2,500.00.

July 5. Gave M. A. Rule check for $5,250.00 for reconditioning the building.

October 1. Paid second quarter rent by check, $2,500.00.

November 10. Paid $36.50 in cash for painting office floors.

January 2. Paid third quarter rent by check, $2,500.00.

February 1. Gave R. O. Adams check for $1,800.00 for constructing a garage at the rear of the building.

April 1. Paid fourth quarter rent by check, $2,500.00.

May 16. Paid $26.50 in cash for rearranging shelving.

June 30. Recorded as expenses the capital expenditures applicable to the fiscal period of twelve months ending June 30.

Instructions. Record these transactions in the appropriate journals.

CHAPTER XXXVIII

ACCOUNTS FOR MANUFACTURING

The merchant buys merchandise and sells it in the same form in which it is purchased. The manufacturer buys raw material and through the operations of the factory, changes its form to meet the needs of his customers. The method of recording transactions to provide the merchant with the cost of merchandise purchased has been explained in preceding chapters. The discussion in this chapter relates to the method of recording transactions to provide the manufacturer with the cost of the merchandise manufactured.

Manufacturing. The manufacturer makes such things as clothing, food products, furniture, kitchen utensils and automobiles. In producing these articles, he must have a factory equipped with machinery, employees to operate the machinery, and the required raw materials. In other words manufacturing involves three cost elements: the general expense of operating the factory and cost of machinery, known as *burden* or *manufacturing expense; labor cost;* and *raw materials* or *materials.*

Materials. The manufacturer of clothing must have cloth, thread, buttons, and various other articles needed in the completed garment. The manufacturer of automobiles requires steel, castings, wood, glass, leather, paint, and various other articles. The various types of commodities needed in the manufacture of a finished article are referred to as *materials* or *raw materials.*

Labor. No matter how well a factory may be equipped with automatic machinery, the human element is essential to the successful operation of the machinery. The amount paid employees to operate the machinery, do hand work or supervise machine operators or hand workers, is known as *labor.* The work of operators engaged in making the things manufactured is known as *direct labor* to distinguish it from the labor of those who supervise or do work not directly applicable to any one job, which is designated as *indirect labor.*

Prime Cost. The materials and direct labor costs in the finished article, taken together, are referred to as the *prime cost* of the article. If the leather and other material used in the manufacture of a pair of shoes cost $3.25 and the labor cost is $2.25, the prime cost is $5.50.

Burden. The expenses incident to the operations of a factory and the manufacture of the products is referred to as either *overhead expense, manufacturing expense,* or *burden.* The principal items of burden are rent, repairs to machinery, depreciation on machinery, property taxes, insurance, heat, light, power and indirect labor.

Factory Cost. The factory cost of a finished article is the sum of the prime cost and the burden applicable to the article. Thus, materials cost + labor cost + burden = factory cost. If the burden applicable to the shoes mentioned in the preceding illustration is $1.05, the factory cost is $6.55; prime cost, $5.50 + burden, $1.05 = factory cost, $6.55.

Manufacturing Process. A factory equipped with the required machinery and the needed employees to operate this machinery are essential to the manufacturing process. Since the manufacturer must know the factory cost before fixing the selling price if he is to make a profit, the manufacturing process is divided into *cost periods* usually one month in length. The materials, labor and burden cost during each cost period are recorded so that the cost of the goods manufactured during that period may be ascertained at its close.

The required materials are purchased and debited to an account with the title *Materials*. The materials are usually kept in the storeroom and requisitioned for factory use as needed in the manufacturing process. When materials are requisitioned, an account with the title *Material in Process* is debited and the Materials account credited for the cost of the material.

Wages due employees on payday are paid with cash or by check and debited to an account with the title *Labor*, or *Pay Roll*. Salaries of the superintendent and foreman and wages of those employees who do work of a general nature may be debited to an account with *Indirect Labor* at the time the pay roll is paid. When all labor cost is debited to the account with Labor, the amount of the indirect labor as shown by the payroll is transferred from the Labor account to the Indirect Labor account at the close of the cost period.

When cash is paid for rent, power, heat, light or other expenses of a like character, the amount is debited to an account with an appropriate title or all these items may be debited to one account with the title *Burden*. If these various expenditures are recorded in separate accounts, the balance of these accounts are summarized at the close of the cost period into the *Burden* account.

Depreciation, insurance and taxes on factory equipment are usually recorded at the close of the cost period in accounts with the titles *Depreciation on Factory Equipment*, *Expired Insurance on Factory Equipment*, and *Property Taxes on Factory Equipment*. The balance of each of these accounts is summarized into the one Burden account at the close of the cost period.

At the close of each cost period, the balance of the Materials in Process account shows the cost of the materials placed in process during the period. After any necessary adjustment has been made for wages accrued and unpaid, the balance of the Labor or Pay Roll account shows the total cost of labor during the period. The sum of the balances of the burden accounts or the balance of the one Burden account shows the total burden cost for the period. The sum of all these costs is the total cost of goods manufactured during the period provided all goods placed in process have been manufactured and assuming that no goods were in process at the beginning of the period. If all

the goods placed in process have not been manufactured, it will be necessary to take an inventory of the incompleted goods and deduct it from the total cost of goods placed in process in order to ascertain the cost of those completed.

At the close of each cost period a Manufacturing Statement is prepared from the account balances which show the material, labor, and burden cost, and the inventory of incompleted jobs in process of manufacture. The facts shown on this statement include (a) the value of the work in process at the beginning of the cost period, (b) the materials, labor, and burden cost during the period, (c) the value of the work in process at the close of the cost period, and (d) the cost of the finished goods completed during the cost period.

When the Manufacturing Statement is completed, the materials, labor and burden costs are summarized in an account with the title Work in Process, through entries in the general journal. The Work in Process account is debited for the balances of the Materials in Process, Labor and Burden accounts and credited with the cost of the finished goods as shown by the Manufacturing Statement. The Finished Goods account is debited for the cost of the goods completed during the period.

When the journal entries to summarize the costs have been posted, the Finished Goods account will show the cost of the goods manufactured during the period and the balance of the Work in Process account, the cost of incompleted work. This should be the same as a physical inventory of incompleted goods. As all the factory costs have been transferred to the Work in Process account, the accounts showing these costs will be in balance.

Illustrations of the Manufacturing Process. The accounts in the illustration at the right appear on the ledger of the Candy Kitchen, a corporation engaged in manufacturing candy, at the beginning of the monthly fiscal period, December 1. The balance of the Materials account shows the materials in the storeroom, December 1, to be requisitioned when needed. The balance of the Work in Process account shows the material, labor and burden costs applicable to the candy in the course of manufacture, December 1. The balance of the Finished Goods account shows the inventory of candy ready for sale December 1. Each of these account balances appeared as assets on the Balance Sheet, November 30. The first represents the cost value of material in stock; the second, the cost value of material, labor and burden in process of manufacture; and the third, the cost of the finished goods in stock.

MATERIALS

19						
Dec.	1	Inven.	√	3560	42	

WORK IN PROCESS

19						
Dec.	1	Inven.	√	3637	52	

FINISHED GOODS

19						
Dec.	1	Inven.	√	10621	42	

The transactions outlined below were completed during the December cost period; each of these transactions affect factory cost.

1. Paid December rent of the factory, $350.00.

5. Paid premium on insurance for factory equipment for one year beginning December 1, $240.00.

31. Paid monthly pay roll, $5,261.40: indirect labor, $600.00; direct labor, $4,661.40.

31. Paid December electric power bill, $525.80.

31. Total purchases of material during the December cost period as shown by the purchases journal, $11,642.87.

31. Total value of material requisitioned for factory use as recorded in the requisition journal, $10,343.52.

31. Accrued property taxes on factory equipment, $32.50, expired insurance on factory equipment, $20.00 and depreciation on factory equipment, $65.20.

31. Inventory value of work in process which includes material, labor and burden, $1,542.91.

The entries to record the cash payments are:

December, 19 — CASH — Payments

Date	L. F.	Name of Account	Explanation	Amount
1	456	Rent	December rent	350 —
5	450	Prepaid Insurance	On factory equipment	240 —
31	456	Indirect Labor	Salaries of supt. and foremen	600 —
31	456	Labor	December direct labor cost	4661 40
31	456	Power	December bill	525 80

The entries in the general journal to record (a) total materials purchased, (b) total materials requisitioned and (c) expired insurance, taxes and depreciation are shown in the illustration at the left. The total materials purchased and the total cost of material requisitioned may be posted from the purchases and requisition journals, but for the sake of brevity, the entries are shown in journal form.

31				
456	Materials	11642 87		
301	Accts. Payable		11642	87
	Total materials purchased.			
31				
456	Materials in Process	10343 52		
456	Materials		10343	52
	To record material requisitioned.			
31				
456	Expired Ins. on Fact. Equip.	20 —		
456	Property Taxes	32 50		
456	Depreciation on Fact. Equip.	65 20		
296	Prepaid Insurance		20	—
321	Accrued Property Taxes		32	50
241	Dep. Res. on Fact. Equip.		65	20
	To record the accruals, deferred items and depreciation.			

The accounts at the right show the results of posting the transactions affecting materials, material in process, labor and burden costs. The various items of burden are debited to one Burden account with the title of the element in the explanation column, since the purpose of the illustration here is to show the information for the Manufacturing Statement only. The Burden account is the same as it would appear if all the elements of burden had first been posted to the separate accounts and then summarized. The Manufacturing Statement below was prepared from the accounts at the right and the inventory of work in process December 31, $1,542.91.

MATERIALS

19					19			
Dec. 1	Inven.	√	3560 42		Dec. 31	J 455		10343 52
31	4859.77 J 455		11642 87					
			15203 29					

MATERIALS IN PROCESS

19				
Dec. 31		J 455	10343 52	

LABOR

19				
Dec. 31		C 455	4661 40	

BURDEN

19				
Dec. 31	Ind. Labor	C 455	600 —	
31	Rent	C 455	350 —	
31	Power	C 455	525 80	
31	Exp. Ins.	J 455	20 —	
31	Prop. Taxes	J 455	32 50	
31	Dep. on F. E.	J 455	65 20	
			1593 50	

WORK IN PROCESS

19				
Dec. 1	Inven.	√	3637 52	

CANDY KITCHEN

MANUFACTURING STATEMENT FOR MONTH OF DECEMBER, 19 .

Raw Materials		
Inventory December 1	3560.42	
Purchases during December	11642.87	15203.29
Less Inventory December 31		4859.77
Cost of Materials Placed in Process		10343.52
Labor		4661.40
Burden		
Indirect Labor	600.00	
Rent	350.00	
Power	525.80	
Expired Insurance	20.00	
Property Taxes	32.50	
Depreciation on Factory Equipment	65.20	1593.50
Total Cost of Work Placed in Process		16598.42
Add Work in Process December 1		3637.52
Cost of Work to be Accounted for		20235.94
Less Work in Process December 31		1542.91
Cost of Finished Goods		18693.03

Illustration 89, Manufacturing Statement

The entries in the illustration at the right are those required to summarize the balances of the Materials in Process, Labor and Burden accounts in the Work In Process account, and to record the cost of the candy manufactured during December. The cost of the candy manufactured during the December cost period is debited to an account with the title Finished Goods; this account has the same meaning to the manufacturer as the sum of the balances of the Merchandise Inventory and Purchases accounts has to the merchant.

	31				
457		Work in Process	16598 42		
		Materials in Process		10343 52	
		Labor		4661 40	
		Indirect Labor		600 —	
		Rent		350 —	
		Power		525 80	
		Expired Insurance		20 —	
		Property Taxes		32 50	
		Dep. on Fact. Equip.		65 20	
	31				
457		Finished Goods	18693 03		
457		Work in Process		18693 03	

The accounts in the illustration at the left show the open manufacturing accounts after the above journal entries are posted to the ledger illustrated on page 456. It will be observed that these are the same three accounts as were open on the ledger at the beginning of the fiscal period. The balance of the Materials account shows the asset value of the material in the store room and the balance of the Work In Process account, the asset value of materials, labor and burden in process of manufacture. The accounts which show the cost of materials placed in process, labor and the burden during the fiscal period are in balance and not shown in the illustration. The Finished Goods account shows the value of the candy in stock December 1 and the cost of the candy manufactured during December; the sum is the "cost of merchandise available for sale."

MATERIALS

19				19			
Dec. 1	Inv.	✓	3560 42	Dec. 31	J 455	10343 52	
31	J 455	11642 87					
		15203 29					

WORK IN PROCESS

19				19			
Dec. 1	Inv.	✓	3637 52	Dec. 31	J 457	18693 03	
31	J 457	16598 42					
		20235 94					

FINISHED GOODS

19							
Dec. 1	Inv.	✓	10621 42				
31	J 457	18693 03					
		29314 45					

The credit to the Finished Goods account because of the candy sold during December is not shown in the foregoing illustration. The purpose of these illustrations is to show the method of recording factory costs as they occur during the cost period and of recording the cost of the goods finished during the period. The cost of sales for the manufacturer is the difference between the balance of the Finished Goods account and the inventory of finished goods in stock at the close of the cost period.

Unit Cost. The cost of each article manufactured, as an automobile, a pair of shoes, a pound of butter, a gallon of molasses, or a barrel of flour is known as the *unit cost.* When the factory produces only one kind of article, the cost of each unit may be ascertained by dividing the total factory cost by the total number of units produced. Thus, if a manufacturer of flour produces one thousand barrels during a cost period, and the manufacturing cost for this period is $7,000.00, the unit cost or the factory cost per barrel is $7.00.

Cost Accounting. When the products of the factory are not all the same, it is necessary to provide a supplementary record which will show factory cost for each article or group of articles of the same quality. The keeping of this supplementary record is known as cost accounting.

SUMMARY

The Manufacturing Process is the process applied by the manufacturer to produce commodities. The cost of these commodities includes materials, direct labor and burden. The total material, labor and burden cost applicable to the goods manufactured constitutes the factory cost, that is, the cost of finished goods manufactured.

The Factory Costs are recorded in appropriate accounts. The balance of these accounts and the inventory of unfinished goods provide the needed information for preparing the Manufacturing Statement.

The Materials Account is a record of the increases and decreases in the asset materials. This account is *debited* for the cost of the goods when purchased or when returned to the storeroom by the factory, and *credited* for the cost of materials when requisitioned for factory use or when returned to the vendor. The *debit* balance of the Materials account is the asset value of the material in the storeroom; this should be verified at the close of each cost period by a physical inventory.

The Materials in Process Account is a record of the increases and decreases in the asset materials requisitioned for factory use. This account is *debited* for the cost of materials requisitioned, and *credited* for the cost of materials returned by the factory to the storeroom. The *debit* balance of the Materials in Process account at the close of the cost period shows the materials placed in process during the cost period. It is shown on the Manufacturing Statement as one of the factory costs and closed into the Work in Process account.

The Labor Account is a record of the increases in direct labor cost. This account is *debited* for the increases resulting from paying wages and salaries. The *debit* balance at the close of the cost period shows the labor cost for the period.

It is shown on the Manufacturing Statement as a part of the factory cost and closed into the Work in Process account.

When both direct and indirect labor are debited to the Labor or Pay Roll account, it is necessary to transfer, at the close of the cost period, the total indirect labor from this account to the Indirect Labor account or the Burden account. The better plan is to analyze each pay roll and debit the Labor account for the direct labor and the Indirect Labor account for the indirect labor.

The Burden Accounts, that is, the accounts with the various elements of burden, contain a record of the increases in the burden costs. A separate burden account with an appropriate title is debited for increases because of factory expenses paid or accrued, factory supplies consumed, insurance expired, and depreciation on factory buildings.

The *debit* balance of each burden account shows the burden cost and the sum of all of these the total burden cost. Each element of burden is shown separately on the Manufacturing Statement as a part of the factory cost. In the ledger, these separate accounts are summarized in one Burden account, the balance of which is transferred to the Work in Process account.

The Burden account is usually a summary account prepared at the close of the cost period. It is the result of summarizing all the elements of burden during the cost period into one account.

The Work in Process Account is a summary of the material, direct labor and other factory costs for the cost period. This account is *debited* at the close of the cost period for the balance of the Materials in Process, Labor and Burden accounts, and *credited* with the cost of finished goods as shown by the Manufacturing Statement. The *debit* balance of this account shows the asset value of the goods in process at the close of the fiscal period. It is verified by a physical inventory.

The Finished Goods Account contains a record of the factory products completed and made available for sale. This account is *debited* at the close of the cost period with the total cost of goods completed and available for sale as shown by the Manufacturing Statement. It is *credited* with the total cost of goods sold during the period. At the close of the cost period, the *debit balance* of this account shows the asset value of the finished goods on hand.

Exercise 164, Factory Costs

(ORAL OR WRITTEN)

1. "Gave the Seaton Realty Company check for $300.00 in payment for rent of factory building." Is this a material, labor or burden cost?

2. "Purchased from Oliver & Company on credit, material per invoice, $1,250.65." Is this a material, labor or burden cost?

3. "Issued check No. 148 for $627.50 in payment for factory pay roll."
(a) To which of the three classes of factory costs does this transaction belong?
(b) Under what conditions would it affect two elements?

4. The account in the illustration at the right appears on the ledger of the Upson Manufacturing Company at the close of the monthly fiscal period, October 31. (a) What is the balance? (b) Is it an asset, liability or proprietorship account? (c) State the entries in journal form to record the facts shown in the second, third and fourth debit entries and the one credit entry.

WORK IN PROCESS

19						19					
Oct.	1	Inv.	3251	80		Oct.	31	Fin. G.	6645	27	
	31	M. in P.	947	50							
	31	Labor	5235	25							
	31	Burden	2115	60							

5. The depreciation on factory equipment at the close of the fiscal period is $141.50. State the journal entry required to record this fact.

Exercise 165, Manufacturing Statement

The illustration at the left is a section of the Trial Balance prepared from the ledger of the Olson Company at the close of the fiscal period, May 31. The inventory of raw materials, May 1, included in the debit balance of the Materials account, is $3,625.18. The inventory of work in process, May 31, is $1,386.20.

OLSON COMPANY
TRIAL BALANCE, May 31, 19...

Materials	10421	50	9417	90
Materials in Process	9417	90		
Labor	5471	65		
Indirect Labor	750	—		
Rent	275	—		
Power	618	40		
Expired Insurance	31	25		
Property Taxes	41	65		
Dep. on Factory Equip.	59	72		
Work in Process	2856	75		

Instructions: (1) From the information given, prepare a Manufacturing Statement showing the cost of the goods manufactured during the May fiscal period.

(2) Record the general journal entries necessary to close the accounts which record factory costs and show the cost of the work in process at the close of the fiscal period in the Work in Process account and the cost of the finished goods in the Finished Goods account.

Exercise 166, Manufacturing Statement

Work in process at the beginning of the cost period, $3,214.20. Work in process at the close of the cost period, $3,519.21. Cost of material used during the period, $10,921.90. Direct labor cost, $6,017.25. Indirect labor cost, $621.50. Burden for the period: rent, $300.00; depreciation, $62.50; power, $714.35; property taxes, $55.90; expired insurance, $41.30; miscellaneous factory expense, $72.90.

Instructions. (1) Show the above facts in "T" accounts. (2) Prepare the Manufacturing Statement. (3) Make the journal entry to close the burden into the Burden account. (4) Make the journal entries to summarize the factory cost in the Work in Process account, and to transfer the cost of goods manufactured to the Finished Goods account. Use your name and current date as close of cost period.

CHAPTER XXXIX

DEPARTMENTAL PURCHASES AND SALES

The method of recording purchases and sales so as to provide the gross profit on all merchandise sold has been discussed in preceding chapters. The discussion in this chapter relates to the method of ascertaining the gross profit on sales for departments or for specific classes of merchandise.

Departmental Sales. When a merchant offers for sale more than one class of merchandise, it is customary to separate the classes of merchandise and refer to each class as a department of the store. The merchant selling shoes for men, women and children may divide his store into different departments and refer to them as the *Men's Shoes Department*, the *Women's Shoes Department* and the *Children's Shoes Department*. A business having separate departments for different kinds of merchandise is ordinarily known as a department store, but any store which in its accounting records divides its merchandise into distinct groups can keep departmental records.

The purpose of keeping departmental records is to ascertain the total sales of each department and the gross and net departmental profit. This enables the manager to know which of the departments are proving to be most profitable and assists him in planning for the future of his business.

Accounts for Departmental Purchases and Sales. The accounts required to record purchases and sales for each department are the same as those used in recording purchases and sales for a business having only one department. In other words, for each department, accounts are kept with Purchases, Freight In, Purchases Returns and Allowances, Sales, Sales Returns and Allowances, and Merchandise Inventory. The gross profit on sales in one department is obtained from the balances of these accounts in the same way as the gross profit is secured for a business which has only one department. The title of each account includes the name or number of the department in addition to the usual title describing the purpose of the account.

Eighteen accounts will be required to provide the shoe merchant, referred to in a previous paragraph, with the gross profit on sales for each of the three departments. The titles of the accounts which contain a record of the purchases and sales of men's shoes are Men's Shoes Purchases, Men's Shoes Freight In, Men's Shoes Purchases Returns and Allowances, Men's Shoes Sales, Men's Shoes Sales Returns and Allowances, and Men's Shoes Inventory.

The title of the six accounts with each of the other two departments are descriptive of the department; *women's shoes* describes the accounts which contain a record of the purchases and sales of that class of shoes, and *children's shoes*, the accounts which apply to the purchase and sale of shoes in this department. Departments are usually described by number instead of a descriptive title for convenience when recording the account titles in the transactions.

Departmental Transactions. Those transactions which affect the purchases or sales are referred to as *departmental transactions*. These include purchases, freight on merchandise purchased, return purchases, sales and return sales. Each transaction is analyzed and recorded so as to show its effect on the department or departments.

Each purchase of merchandise for sale in a department is recorded as a debit to the Purchases account for the department. Each return purchase and allowance is recorded as a credit to the Purchases Returns and Allowances account for the department.

Transportation cost on merchandise purchased is usually recorded as a debit to a general Freight In account because it is not always possible to determine from each freight bill the exact amount of transportation applicable to the separate departments. At the close of each month or fiscal period, the total transportation cost as shown by the debit balance of the Freight In account is distributed to the departments on a percentage basis. The rate used is based on weight, cost value, or such other basis as will equitably distribute the transportation costs applicable to each department.

Each sale of merchandise in a department is recorded as a credit to the Sales account for that department. Each return sale or allowance applicable to a department is recorded as a debit to the Sales Returns and Allowances account for that department. Separate accounts may be kept with Sales Returns and with Sales Allowances if desired; this would mean a Sales Returns account and a Sales Allowances account for each department. Sales returns refers to merchandise returned and sales allowances to allowances made to customers because of unsatisfactory goods.

Journals for Departmental Purchases and Sales. The journals affected by maintaining records which will provide departmental gross profit on sales are usually *purchases journal, purchases returns and allowances journal, sales journal* and *sales returns and allowances journal*. The cash receipts journal will be affected in a retail business because of departmental cash sales. Since very few purchases are made for cash either in the wholesale or retail trade, the ruling of the cash payments journal is usually not affected by departmental records.

Columnar Purchases Journal. The illustration on page 463 contains a record of the purchases on credit made during the month of December by the Economy Drug Co., an incorporated wholesale drug business. Two depart-

ments are maintained, one for *drugs* and the other for all other kinds of merchandise referred to as *sundries*. Three amount columns are provided for (a) Accounts Payable Cr. (total of the invoice), (b) Drugs Purchases, Dr. and (c) Sundries Purchases Dr.

PURCHASES JOURNAL

December, 19

DATE	L. F.	ACCOUNT CREDITED	ADDRESS	INVOICE DATE	TERMS	ACCOUNTS PAYABLE CR.	DRUGS PURCHASES DR.	SUNDRIES PURCHASES DR.
2	13	Kump Drug Co.	Hamilton	12/1	T.A. 60 days	265 40	137 25	128 15
3	29	Goodyear Rubber Co.	Akron	12/1	1/10, n/30	265 35		265 35
4	7	Park Drug Co	Detroit	12/2	2/10, n/30	450 —	250 —	200 —
26	7	Park Drug Co.	Detroit	12/23	2/10, n/30	370 —	60 40	309 60
27	15	Joseph Hyman	Rochester	12/26	3% T A	263 46		263 46
						3357 34	1918 34	1439 —

Illustration 90, Columnar Purchases Journal

Posting from the Columnar Purchases Journal. Each amount entered in the first money column is posted to the credit of the account of the creditor in the accounts payable ledger; this posting is daily. At the end of the month, the three amount columns are footed and the totals proved; the total of the first column should equal the sum of the totals of the second and third columns. The posting of the totals is shown in the illustration at the right; the debit to the Accounts Payable account is from posting the purchases returns and allowances journal on page 464. The posting of the totals records in the Drugs Purchases account the total drugs purchased for the month, and in the Sundries Purchases account the total sundries purchased for the month.

ACCOUNTS PAYABLE Page 18

19						19					
Dec.	31	PR	464	26	30	Dec.	31	P	463	3357	34

DRUGS PURCHASES Page 24

19					
Dec.	31	P	463	1918	34

SUNDRIES PURCHASES Page 29

19					
Dec.	31	P	463	1439	—

Columnar Purchases Returns and Allowances Journal. Returned purchases and allowances may be recorded in the general journal but in the accounting for departmental gross profit on sales it is better to provide a special journal. Unless a special journal is provided, it will be necessary to have a separate amount column in the general journal for each department.

The purchases returns and allowances journal in the illustration on page 464 contains a record of the merchandise returned to creditors and allowances granted by creditors of the Economy Drug Company during December. The

ruling and arrangement of the columns are the same as in the purchases journal. When merchandise purchased for the drug department is returned or an allowance is granted on drugs, the amount is entered in the column for this department. When merchandise purchased for the sundries department is returned or an allowance is granted on sundries, the amount is entered in the Sundries column. The amount of each return or allowance is entered in the first column. When a return affects both departments, the amount entered in the first column will equal the sum of the amounts entered in the other two.

December, 19 — PURCHASES RETURNS AND ALLOWANCES

DATE	L. F.	ACCOUNT DEBITED	ADDRESS	CR MEMO NO.	ACCOUNTS PAYABLE DR.	DRUGS PUR RETURN CR	SUNDRIES PUR RETURNS CR
2	7	Park Drug Co.	Detroit	56	2 20		2 20
10	14	Special Chem. Co.	Chicago	18	4 25	4 25	
16	23	Arthur A. Lewis	City	11	16 95	6 95	10
21	35	Drake & Sons	City	32	2 90	2 90	
					26 30	14 10	12 20
					(12)	(31)	(31)

Illustration 91, Purchases Returns and Allowances Journal

Posting from the Purchases Returns and Allowances Journal. Each amount entered in the first column is posted to the debit side of the account with the creditor in the accounts payable ledger; this posting is usually daily. At the end of the month, the three amount columns are footed and the totals proved; the total of the first column should equal the sum of the totals of the second and third columns. The posting of the Accounts Payable, Dr. column is shown in the Accounts Payable account on page 463. The posting of the totals of the other two columns is shown in the illustration above.

PAGE 26

DRUGS PURCHASES RETURNS AND ALLOW.

19 Dec.	31		PR	464	14 10

PAGE 31

SUNDRIES PURCHASES RETURNS AND ALLOW.

19 Dec.	31		PR	464	12 20

Columnar Sales Journal. The illustration on page 465 contains a record of the sales on credit made by the Economy Drug Co. during the month of December. Three amount columns are provided: (a) Accounts Receivable Dr. (total of the sale), (b) Drugs Sales, Cr., and (c) Sundries Sales Cr.

Posting from the Columnar Sales Journal. Each amount entered in the first amount column is posted to the debit side of the account with the

SALES JOURNAL

December, 19..

DATE	L. F.	ACCOUNT DEBITED	ADDRESS	SALE NO.	TERMS	ACCOUNTS REC. DR.	DRUGS SALES CR.	SUNDRIES SALES CR.
2	19	Cut Rate Drug Co.	Kenton	77	2/10, n/30	156 90	102 74	54 16
6	12	Orr Drug Co.	Race & 14th St, City	78	Jan 1, 2/10, n/30	113 97	84 75	29 22
10	7	St Elmo Sanitarium	St Elmo Heights	79	2/10, n/30	244 20	159 60	84 60
30	10	Model Pharmacy	9th & Flint Sts, City	89	Jan 1, 2/10, n/30	234 65	135 60	99 05
30	26	J L Murphy	921 Day St, City	90	2/10, n/30	503 11	204 09	299 02
						3082 33	1725 73	1356 60

Illustration 92, Columnar Sales Journal

customer in the accounts receivable ledger; this posting is daily. At the end of the month the three amount columns are footed and the totals proved; the total of the first column should equal the sum of the totals of the second and third columns. The posting of the totals is shown in the illustration at the right; the credit to the Accounts Receivable account is from posting the sales returns and allowances journal on page 466. The posting of the totals records in the Drugs Sales account the total amount of drugs sold for the month, and in the Sundries Sales account the total amount of sundries sold for the month. The debit to the Accounts Receivable account equals the sum of these two credits, hence maintains the equality of debits and credits in the ledger.

ACCOUNTS RECEIVABLE Page 4

19						19				
Dec.	31	S	465	3082	33	Dec.	31	SR	466	11 75

DRUGS SALES Page 22

19										
						Dec.	31	S	465	1725 73

SUNDRIES SALES Page 27

19										
						Dec.	31	S	465	1356 60

Columnar Sales Returns Journal. Sales returns and allowances may be recorded in the general journal but in the accounting for departmental gross profit on sales, it is better to provide a special journal. Unless a special journal is provided, it will be necessary to have a column for each department in the general journal.

The sales returns journal in the illustration on page 466 contains a record of the merchandise returned to the Economy Drug Company and the allowances made by it during the monthly fiscal period. The ruling and arrangement of the columns are the same as in the sales journal. When merchandise sold by the drug department is returned or an allowance on drugs is granted to a cus-

tomer, the amount is entered in the Drugs column. When merchandise sold by the sundries department is returned or an allowance on sundries is granted to a customer, the amount is entered in the Sundries column. The amount of each return or allowance is entered in the first column. When a return affects both departments, the amount entered in the first column will equal the sum of the amounts entered in the other two.

December, 19. SALES RETURNS AND ALLOWANCES

DATE	L. F.	ACCOUNT CREDITED	ADDRESS	CR. MEMO NO.	ACCOUNTS RECEIVABLE CR.	DRUGS SALES RETURNS DR.	SUNDRIES SALES RETURNS DR.
7	12	Orr Drug Co.	Race & 16th St., City	16	1 25		1 25
13	26	J. L. Murphy	921 Day St., City	17	4 50	4 50	
21	29	Hunter & Son	London	18	1 —		1 —
28	8	Hull's Pharmacy	927 June St., City	19	5 —	3 50	1 50
					11 75 (1)	8 — (23)	3 75 (28)

Illustration 93, Sales Returns Journal

Posting from the Sales Returns Journal. Each amount entered in the first column is posted to the credit side of the account with the charge customer in the accounts receivable ledger; this posting is usually daily. At the end of the month, the three amount columns are footed and the totals proved; the total of the first column should equal the sum of the totals of the second and third columns. The posting of the totals is shown in the illustration at the left. The posting of the total of the Accounts Receivable column is shown in the credit entry in the Accounts Receivable account on page 465. The debits to Drugs Sales Returns and Allowances and Sundries Sales Returns and Allowances are illustrated above. Posting these totals records in the Drugs Sales Returns and Allowances and the Sundries Sales Returns and Allowances accounts the returns and allowances applicable to each.

Page 23 DRUGS SALES RETURNS AND ALLOWANCES

19				
Dec. 31	SR 466	8 —		

Page 28 SUNDRIES SALES RETURNS AND ALLOWANCES

19				
Dec. 31	SR 466	3 75		

Columnar Cash Book. The ruling of the cash book will not be affected by departmental sales, except when merchandise is purchased and sold for cash. The illustration on page 467 shows the form of ruling for a cash book when all purchases and sales are recorded in the purchases and sales journals, controlling accounts are maintained with accounts receivable and accounts payable, and cash discount is allowed to customers and by creditors. This form of cash book can be used whether the sales and purchases are kept by departments or not.

CASH RECEIPTS

DATE	L. F.	ACCOUNT CREDITED	EXPLANATION	GENERAL LEDGER CR	ACCOUNTS RECEIVABLE LEDGER CR.	SALES DISCT DR	NET CASH DR

CASH PAYMENTS

DATE	L. F.	ACCOUNT DEBITED	EXPLANATION	GENERAL LEDGER DR	ACCOUNTS PAYABLE LEDGER DR	PURCHASES DISCT. CR	NET CASH CR

The retailer sells for cash and on credit but usually does not allow his customers cash discount for prompt payment. The retailer usually buys on credit and is allowed cash discount by his creditors for prompt payment. The illustration below shows a suggested ruling for a retail grocer who maintains two departments and controlling accounts with Accounts Receivable and Accounts Payable.

CASH RECEIPTS

DATE	L. F.	ACCOUNT CREDITED	EXPLANATION	GENERAL LEDGER CR.	ACCOUNTS REC LEDGER CR.	GROCERIES CR.	MEATS CR.	NET CASH DR

CASH PAYMENTS

DATE	L. F.	ACCOUNT DEBITED	EXPLANATION	GENERAL LEDGER DR	ACCOUNTS PAYABLE LEDGER DR	PURCHASES DISCT. CR.	NET CASH CR

General Journal. The ruling of the general journal will not be affected by departmental accounts when the returned purchases and returned sales are recorded in a special journal. The illustration below shows the ruling of the general journal when controlling accounts are maintained with Accounts Receivable and Accounts Payable; this form is satisfactory with or without departmental sales records. This form is the same as that illustrated in previous chapters; it is repeated here to emphasize the statement that departmental accounts do not affect the ruling of the general journal.

	L. F.	ACCOUNTS DEBITED AND CREDITED AND EXPLANATION	GENERAL LEDGER DR.	GENERAL LEDGER CR.	ACCOUNTS PAYABLE LEDGER DR.	ACCOUNTS RECEIVABLE LEDGER CR

Departmental Expenses. The discussion in this chapter relates to the method of ascertaining the gross profit on sales by departments. When it is desired to ascertain the net profit resulting from the operation of each department, it is necessary to record the expenses separately for each department and to apportion the expenses of a general nature to the various departments.

In order to simplify the analyzing of expenses by departments, special columns are frequently used on the payments side of the cash book. A separate column is maintained for expenses applicable to each department. Expenses of a general nature are recorded in one column and the total posted to a general expense account in the ledger. At the close of the fiscal period, the balance of this general expense account is distributed to the various departments through an entry in the general journal.

The net profit for a department is then found by deducting the departmental expenses from the gross profit. The securing of the net profit for each department is the same then as the securing of the net profit for a business having one department. The method is not illustrated since it does not involve any new methods or principles.

Exercise 167, Departmental Accounts

(ORAL OR WRITTEN)

1. The Family Grocery Company buys on credit and sells for cash and on credit with no cash discount on sales. Controlling accounts are maintained for accounts receivable and accounts payable. Three departments are maintained, one each for groceries, delicatessen, and fresh meats. What would be the title of each column in the purchases journal illustrated below, stated in the order in which the columns are lettered?

A	B	C	D	E	F	G	H	I	J

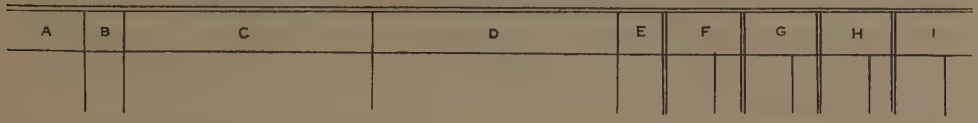
2. What would be the title of each column in the purchases returns and allowances journal below which is used by the Family Grocery Company?

A	B	C	D	E	F	G	H	I

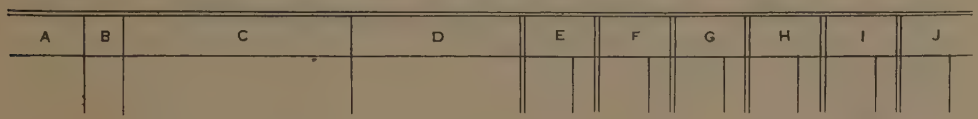
3. What would be the title of each column in the sales journal below which is used by the Family Grocery Company?.

A	B	C	D	E	F	G	H	I	J

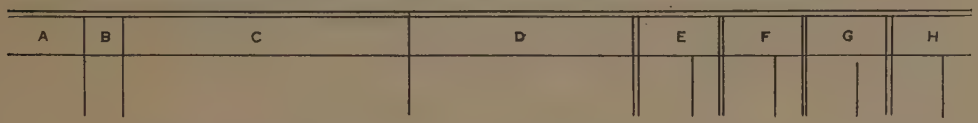
4. What would be the title of each column in the sales returns and allowances journal below which is used by the Family Grocery Company?



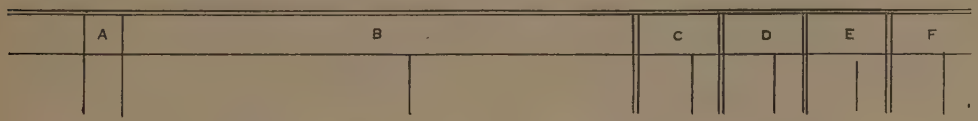
5. What would be the title of each column on the receipts side of the cash book below which is used by the Family Grocery Company?



6. What would be the title of each column on the payments side of the cash book below which is used by the Family Grocery Company?



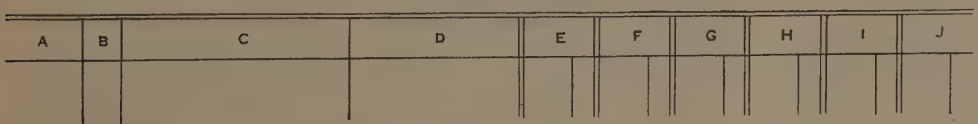
7. What would be the title of each column in the general journal below, used by the Family Grocery Company for recording the transactions which cannot be recorded in the special journals?



8. State the title of each of the ten amount columns required for the general journal if special journals were not provided for purchases returns and allowances and sales returns and allowances. You may assume that the amount columns are arranged in the same order as the illustration at the bottom of page 467. Indicate each column by a letter and its title, as "A, General Ledger, Dr.," "B, General Ledger, Cr.," "C, Accounts Payable Ledger, Dr." etc.

9. The Park Pharmacy sells for cash only and maintains four departments, drugs, prescriptions, cigars, and fountain. What would be the title of each of the columns in the illustration below stated in the order in which the columns are lettered?

CASH RECEIPTS



10. The Bargain Department Store sells for cash and maintains six departments. Merchandise sold may be returned in exchange for other mer-

chandise but cash is not refunded. $7.00 was received from J. L. Hudson for a sale of men's shoes sold him from the shoe department. Later he returned the shoes and received in exchange a hat from the hat department, sale value $5.00, and a shirt from the men's furnishings department, sale value $2.00. State in journal form the entry necessary to adjust the sales in the three departments affected because of this exchange.

REPORTS

Balance Sheet. When departmental purchases and sales are recorded so as to provide departmental profit on sales, it is customary to show on the Balance Sheet the inventory of the merchandise in each department. With this exception the information shown on the Balance Sheet will be the same as when separate departments are not maintained.

The method of showing the inventories for the two departments on the Balance Sheet, December 31, for the Economy Drug Co. is in the illustration below; the waved lines indicate the omission of part of the statement.

ECONOMY DRUG COMPANY

BALANCE SHEET, DECEMBER 31, 19 .

Assets			
Current Assets:			
Cash		3649.19	
Notes Receivable		1417.25	
Accrued Interest on Notes Receivable		13.70	
Accounts Receivable	2093.84		
Less Reserve for Bad Debts	216.40	1877.44	
Drugs Inventory		7602.97	
Sundries Inventory		12917.86	
Total Current Assets			27478.41
Deferred Assets:			
[illegible]		[illegible]	
[illegible]			[illegible]
Proprietorship:			
Capital Stock Authorized	25,000.00		
Capital Stock Unissued	5,000.00		
Capital Stock Outstanding		20000.00	
Surplus		4544.20	
Total Proprietorship			24544.20

Illustration 94, Balance Sheet

Profit and Loss Statement. When the purchases and sales are recorded by departments, it is customary to show on the Profit and Loss Statement detailed information for ascertaining the gross profit on sales for each department. With this exception the information on the Profit and Loss Statement is the same as when separate departments are not maintained.

The illustration below shows the Profit and Loss Statement prepared for the Economy Drug Company, December 31; the waved lines indicate the omission of a part of the statement.

ECONOMY DRUG COMPANY

PROFIT AND LOSS STATEMENT FOR YEAR ENDING DECEMBER 31, 19 .

	Drugs		Sundries	
Income from Sales:				
Gross Sales	23783.01		27732.83	
Less Returns and Allowances	157.24		241.55	
Net Sales		23625.77		27491.28
Cost of Goods Sold:				
Gross Purchases	16421.35		11435.03	
Less Returns and Allowances	395.57		104.24	
Net Purchases	16025.78		11330.79	
Add Inventory, January 1	5374.89		11543.68	
Add Freight In	194.56		208.17	
Goods Available for Sale	21595.23		23082.64	
Less Inventory, December 31	7602.97		12917.86	
Net Cost of Goods Sold		13992.26		10164.78
Gross Profit on Sales		9633.51		17326.50
Total Gross Profit on Sales				26960.01
Operating Expenses:				
Selling Expenses:				
Net Profit				4031.40

Illustration 95, Profit and Loss Statement

Trading, Profit and Loss Summary Account. When the records provide for departmental profit on sales, it is customary when summarizing the account balances of the trading accounts in the Trading account or a trading division of the Profit and Loss Summary account, to rule a section for each department. The illustration in connection with Exercise 169, page 472, shows the method of ruling.

Exercise 168, Working Sheet and Reports

The following account balances appear on the ledger of the Economy Drug Co. at the close of the yearly fiscal period, December 31:

Sales Salaries	$ 7,652.40	Accounts Receivable	$ 2,093.84
Accounts Payable	2,165.69	Sales Discount	624.88
Office Equipment	705.00	Drugs Freight In	194.56
Sundries Sales Ret. and Allow.	241.55	Capital Stock	25,000.00
Reserve for Doubtful Accts.	116.40	Dep. Res. for Of. Equip.	121.25
Surplus	512.80	Drugs Inventory	5,374.89
Misc. General Expense	527.60	Advertising Expense	324.57
Dep. Reserve for Store Equip.	316.75	Cash	3,649.19
Notes Receivable	1,417.25	Drugs Pur. Ret. and Allow.	395.57
Store Supplies	622.40	Office Salaries	9,855.40
Unissued Capital Stock	5,000.00	Sundries Purchases	11,435.03
Notes Payable	2,500.00	Office Supplies	325.80

Rent	2,100.00	Purchases Discount	639.20
Interest Expense	163.74	Sundries Inventory	11,543.68
Drugs Purchases	16,421.35	Prepaid Insurance	865.50
Sundries Freight In	208.17	Interest Income	63.35
Store Equipment	1,214.50	Sundries Sales	27,732.83
Drugs Sales	23,783.01	Drugs Sales Ret. and Allow.	157.24
Sundries Pur. Ret. and Allow.	104.24	Delivery Expense	732.55

Inventories, Deferred Items, Accruals and Depreciation:

Drugs Inventory, $7,602.97
Sundries Inventory, $12,917.86
Office Supplies, $92.50
Store Supplies, $186.55
Prepaid Insurance, $240.00
Prepaid Interest on Notes Payable, $7.66
Accrued Interest on Notes Receivable, $13.70
Accrued Interest on Notes Payable, $4.50
Accrued Taxes, $176.25
Reserve for Doubtful Accounts, $100.00
Depreciation on Office Equipment, 5%
Depreciation on Store Equipment, 5%

Instructions. From the information given prepare (1) Working Sheet with the accounts arranged in the correct order, (2) Balance Sheet, (3) Profit and Loss Statement, and (4) adjusting and closing entries.

Exercise 169, Profit and Loss Statement

The account below appears on the ledger of the Swiss Trading Co., Inc., at the close of the fiscal year ending June 30. Prepare a Profit and Loss Statement from the facts stated in the account.

TRADING, PROFIT AND LOSS SUMMARY

19					19				
June	30	Mdse. Inv. 7/1	11687	10	June	30	Mdse. Inv. 6 30	9381	52
	30	Dept. A Purchases	14113	69		30	Dept. A Pur. R. & A.	137	22
	30	Dept. A Freight In	265	50		30	Dept. A Sales	27781	19
	30	Dept. A Sls. R. & A.	327	55					
	30	*Profit on Sls. Dept. A*	*10906*	*09*					
			37299	93				37299	93
June	30	Mdse. Inv. 7 1	6944	07	June	30	Mdse. Inv. 6 30	5642	33
	30	Dept. B Purchases	13419	76		30	Dept. B Pur. R. & A.	652	50
	30	Dept. B Freight In	422	65		30	Dept. B Sales	33615	75
	30	Dept. B Sls. R. & A.	519	90					
	30	*Profit on Sls. Dept. B.*	*18604*	*20*					
			39910	58				39910	58
June	30	Sales Salaries	6600	—	June	30	Profit on Sls. Dept. A	10906	09
	30	Advertising Expense	521	90		30	Profit on Sls. Dept. B	18604	20
	30	Store Supplies Used	362	78		30	Purchases Discount	914	50
	30	Dep. on Store Equip.	91	75		30	Interest Income	62	29
	30	Misc. Selling Exp.	655	78					
	30	Rent	2400	—					
	30	Office Salaries	4115	—					
	30	Misc. General Exp.	729	90					
	30	Office Supplies Used	175	55					
	30	Postage	419	21					
	30	Dep. on Office Eq.	42	75					
	30	Expired Insurance	754	50					
	30	Property Taxes	209	17					
	30	Sales Discount	542	41					
	30	Interest Expense	116	55					
	30	Donations	500	—					
	30	Surplus	12249	83					
			30487	08				30487	08

CHAPTER XL

COMPARATIVE REPORTS

One of the prime purposes of accounting is to provide information regarding the operations of the business which will permit the owner or management to control future operations. Much valuable information for control purposes may be obtained from a comparison of Balance Sheets for consecutive fiscal periods and Profit and Loss Statements for consecutive periods. The discussion in this chapter relates to the information which may be obtained from comparative reports.

Comparative Balance Sheet. When information is desired about the changes in the assets and liabilities and the significance of the changes, Balance Sheets for two or more periods are arranged so that they can be compared readily. Information of the same nature is placed in adjacent columns and the increases and decreases are indicated either in amounts or percentages.

The illustration on page 474 shows two Balance Sheets prepared for The Hall Mercantile Company. The first Balance Sheet was made at the close of the semi-annual fiscal period ending June 30, and the second, at the close of the semi-annual fiscal period ending the following December 31. The changes in assets and liabilities are indicated in the column at the extreme right. The increases are printed in Roman type and the decreases, in italics.

The information to be obtained from the comparison of these two Balance Sheets may be briefly described as follows:

(1) The cash balance has decreased $5,867.10. As the cash balance is large compared to the total assets, this is not, of itself, an unfavorable change, and may indicate that the cash is being used to a better advantage than before.

(2) The Notes Receivable and Accounts Receivable are very small. The sum of these two items is less than the average sales for two weeks as shown in the comparative Profit and Loss Statement on page 476. This indicates that collections are prompt. It is worthy of note, however, that the Notes Receivable increased more than 160%. This may indicate that some customers are having difficulty in making prompt payments and are settling their accounts by notes; an analysis of the Notes Receivable account is necessary to determine this.

(3) The Merchandise Inventory increased about $5,000.00 or about 32%. This is not too great an increase since it is in proportion to the increase in sales.

(4) Sufficient depreciation seems to have been recorded on the fixed assets for a period of six months. This indicates that the assets are conservatively valued.

THE HALL MERCANTILE COMPANY

COMPARATIVE BALANCE SHEET FOR TWO SEMI-ANNUAL FISCAL PERIODS ENDING June 30 and December 31, 19...

Assets	June 30, 19		Dec. 31, 19		Inc. or Dec.
Current Assets:					
Cash	44573 20		38706 10		*5867 10*
Notes Receivable	1650 —		4300 —		2650 —
Accounts Receivable	4000 —		7000 —		
Less Reserve for D'btful Accts.	40 —	3960 —	110 —	6890 —	2930 —
Merchandise Inventory	14079 60		18990 40		4910 80
Accrued Interest Earned	19 40		85 —		65 60
Total Current Assets	64282 20		68971 50		4689 30
Deferred Assets per Schedule	454 30		1314 50		860 20
Fixed Assets:					
Office Equipment	1250 —		1250 —		
Less Depreciation Reserve	62 50	1187 50	125 —	1125 —	*62 50*
Store Fixtures	2000 —		2000 —		
Less Depreciation Reserve	150 —	1850 —	300 —	1700 —	*150 —*
Delivery Equipment	4500 —		4500 —		
Less Depreciation Reserve	450 —	4050 —	900 —	3600 —	*450 —*
Building	10000 —		10000 —		
Less Depreciation Reserve	250 —	9750 —	500 —	9500 —	*250 —*
Land	5000 —		15000 —		10000 —
Total Fixed Assets	21837 50		30925 —		9087 50
Goodwill	15000 —		15000 —		
Total Assets	101574 —		116211 —		14637 —
Liabilities and Proprietorship					
Current Liabilities:					
Notes Payable—Bank	5000 —				*5000 —*
Notes Payable—Creditors	2000 —		2500 —		500 —
Accounts Payable	38000 —		47600 —		9600 —
Accrued Wages	495 —		568 —		73 —
Accrued Interest Cost	155 —		54 —		*101 —*
Total Current Liabilities	45650 —		50722 —		5072 —
Proprietorship:					
Capital Stock	50000 —		50000 —		
Surplus	5924 —		15489 —		9565 —
Total Proprietorship	55924 —		65489 —		9565 —
Total Liabilities and Proprietorship	101574 —		116211 —		14637 —

Illustration 96, Comparative Balance Sheet

(5) The Land account has increased from $5,000.00 to $15,000.00. This may indicate that the business has purchased land for a new home. As the business has a large cash balance, this is satisfactory, providing it has not unfavorably affected the ratio of current assets to current liabilities.

(6) Notes Payable-Creditors and Accounts Payable have increased $10100.00, but this is partially offset by the decrease of $5000.00 in notes payable to the bank. The net increase of $5100.00 is an unfavorable change, particularly when it is considered together with the decrease in the cash balance of $5867.10.

(7) The ratio of current assets to current liabilities in the Balance Sheet of June 30 was 2 to 1.42. In the December 31 Balance Sheet, it changed to 2 to 1.47. This is an unfavorable change, when it is taken into consideration that a normal ratio of current assets to current liabilities should be 2 to 1. It is particularly unfavorable since formerly the current assets were mostly cash while now a large per cent consists of notes receivable, accounts receivable and inventory, which may decrease in value before they are turned into cash.

Comparative Profit and Loss Statements. When it is desired to compare income, cost and expenses of a similar nature for two or more consecutive fiscal periods, the Profit and Loss Statements are arranged in comparative form. Information of the same nature is placed in adjacent columns to facilitate making the comparison; the increases and decreases are indicated in amounts or percentages.

The illustration on page 476 shows two Profit and Loss Statements prepared for the Hall Mercantile Company, a corporation. The first statement was prepared at the close of the June semi-annual fiscal period, and the second one at the close of the following semi-annual fiscal period, December 31. A comparison of the two statements is shown by the figures in the third column at the right; increases are printed in Roman type and decreases in italics.

The information to be obtained from a comparison of these two Profit and Loss Statements may be briefly described as follows:

(1) Comparison of gross sales. The sales during the second six months increased 31.8%. This indicates a favorable condition.

(2) Ratio of sales returns to sales. The sales returns during the first half of the year were 3.3% of the sales and the latter half of the year, 2.7%. This is a favorable condition because it indicates more satisfied customers.

(3) The gross profit for the first period is 27.3% of sales. In the second, it increased to 29.6%, or 2.3%. This indicates that a higher markup is being secured either from the fact that higher prices are being charged or that purchases are being made on a more favorable basis.

(4) Turnover. The turnover for the first six months of the year is 5 and the second six months, 6. This indicates a favorable condition because during the first half of the year, the merchandise was turned over only five times while during the latter part of the year, it was turned over six times. Turnover is the cost of the merchandise sold divided by the average of the beginning and ending inventory.

(5) Expenses increased from 21.2% of net sales to 23.1%. This indicates a tendency which, if continued, will materially decrease profits in the future. It is also worthy of note that Administrative Expense has decreased $2,250.00. This may be due to the fact that certain administrative expenses have been paid during the first half of the year and have been charged as expenses for that period only. If that is the case, the Administrative Expense may again be higher during the next period. If it is accompanied by equally higher expenses in the other divisions, the total expenses may increase until they are out of proportion to sales.

THE HALL MERCANTILE COMPANY

COMPARATIVE PROFIT AND LOSS STATEMENT FOR TWO SEMI-ANNUAL FISCAL PERIODS ENDING June 30 and December 31, 19...

	June 30, 192		Dec. 31, 192		Inc. or Dec.	
INCOME FROM SALES:						
Gross Sales		110000 —		145000 —	35000	—
Less Sales Returns and Allowances		3600 —		4000 —	400	—
Net Income from Sales		106400 —		141000 —	34600	—
COST OF GOODS SOLD:						
Inventory at beginning of Period	16910 80		14079 60		*2831*	*20*
Purchases	63981 30		89246 40		25265	10
Freight and Drayage In	10663 50		14874 40		4210	90
Total Purchases Cost	91555 60		118200 40		26644	80
Less Inventory at end of period	14079 60		18990 40		4910	80
Net Cost of Goods Sold		77476 —		99210 —	21734	—
Gross Profit on Sales		28924 —		41790 —	12866	—
OPERATING EXPENSES:						
Buying Expense	3850 —		6525 —		2675	—
Selling Expense	7700 —		13050 —		5350	—
Delivery Expense	4400 —		8700 —		4300	—
Administrative Expense	6600 —		4350 —		*2250*	—
Total Operating Expenses		22550 —		32625 —	10075	—
Net Profit from Operation		6374 —		9165 —	2791	—
OTHER INCOME:						
Interest Earned	250 —		650 —		400	—
Purchases Discount	500 —		850 —		350	—
Total Other Income		750 —		1500 —	750	—
Gross Income		7124 —		10665 —	3541	—
DEDUCTIONS FROM INCOME:						
Interest Cost	500 —		100 —		*400*	—
Sales Discount	700 —		1000 —		300	—
Total Deductions from Income		1200 —		1100 —	*100*	—
Net Income Carried to Surplus		5924 —		9565 —	3641	—

Illustration 97, Comparative Profit and Loss Statement

(6) The net profit from operations has increased from 6% to 6.5% of net sales. This is favorable but it must be borne in mind that it is due to a higher markup on the merchandise and not to a decrease in the expense of operation. If the higher markup is due to an increase in prices during the period and is, therefore, unlikely to be repeated in future periods, the increase in net profit may be replaced in future periods by a loss.

(7) Net income. The net income as a result of operating the business during the first six months was $5924.00 and during the second six months, $9565.00, an increase of $3641.00. This indicates a favorable condition.

Method of Showing Comparative Facts. The comparative Balance Sheet and Profit and Loss Statement provide the desired information but not an interpretation of this information. This interpretation may be shown through graphs or percentages.

Graph. A pictorial chart presenting comparative facts is referred to as a *graph* or *graphic chart.* There are three forms of graphs in general use, (a) the bar graph, (b) the curved graph, and (c) the circular graph. Each of these forms may be used when presenting facts shown on comparative reports.

A Bar Graph is used to compare totals for two or more periods. Thus, if it is desired to show by a bar graph the net sales for the two periods as reported on the Profit and Loss Statement, page 476, the bars would be arranged as in Illustration 98.

If the comparison of sales is for six periods, the sales for the first fiscal period being $50,000.00, the second, $60,000.00, the third, $80,000.00, the fourth, $65,000.00, the fifth, $75,000.00, and the sixth, $85,000.00, the facts prepared in bar graph form would be as in Illustration 99.

When desired, the bars in the bar graph may be made to show a comparison of more than one group of figures. Thus, if it is desired to show net sales,

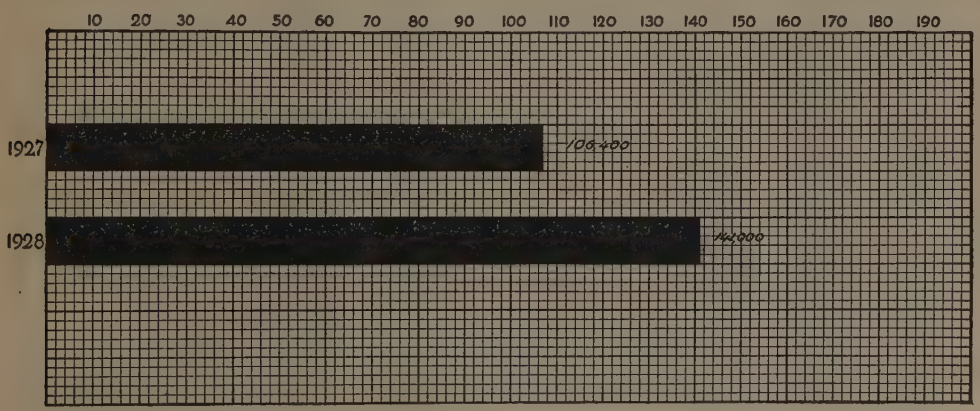


Illustration 98, Horizontal Bar Graph

cost of sales, selling expense and general expense on the same bar graph for the two periods shown in the Profit and Loss Statement on page 476, the information would be presented as in Illustration 100.

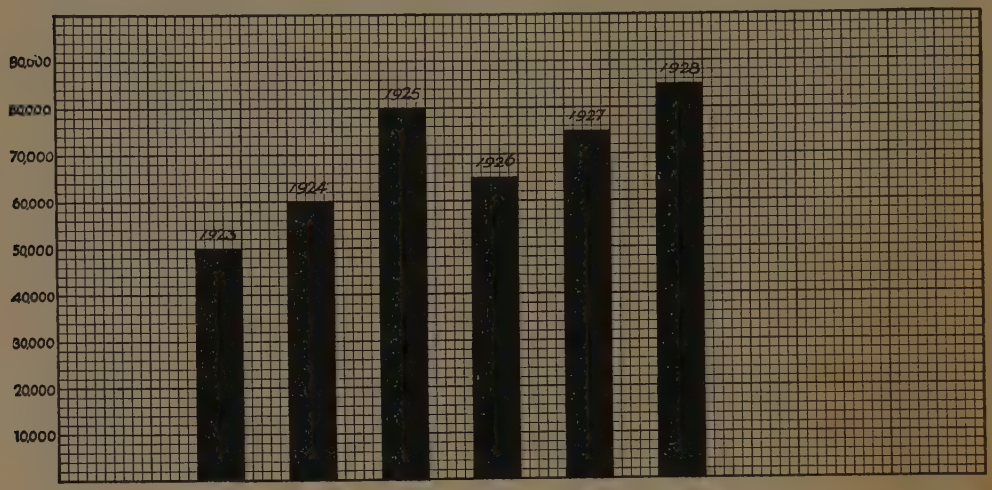


Illustration 99, Vertical Bar Graph

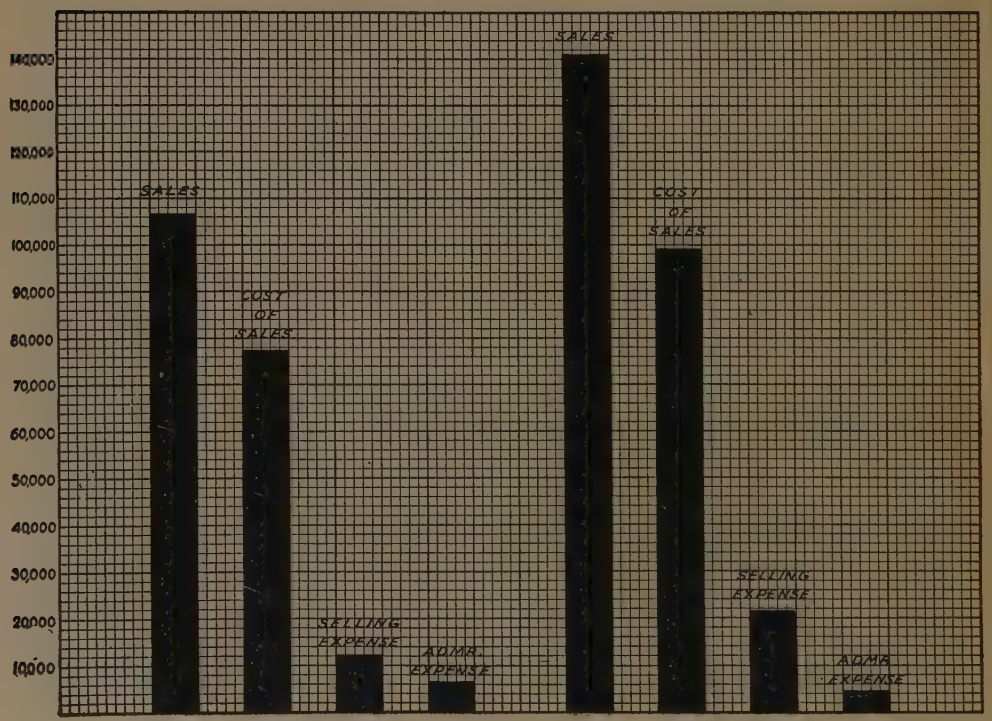


Illustration 100, Vertical Bar Graph

A Curved Graph is used to present a comparison of figures over a number of periods. Assuming that the monthly sales and selling expenses for two consecutive periods are as shown on page 476, a curved graph setting forth the facts would appear as in Illustration 101.

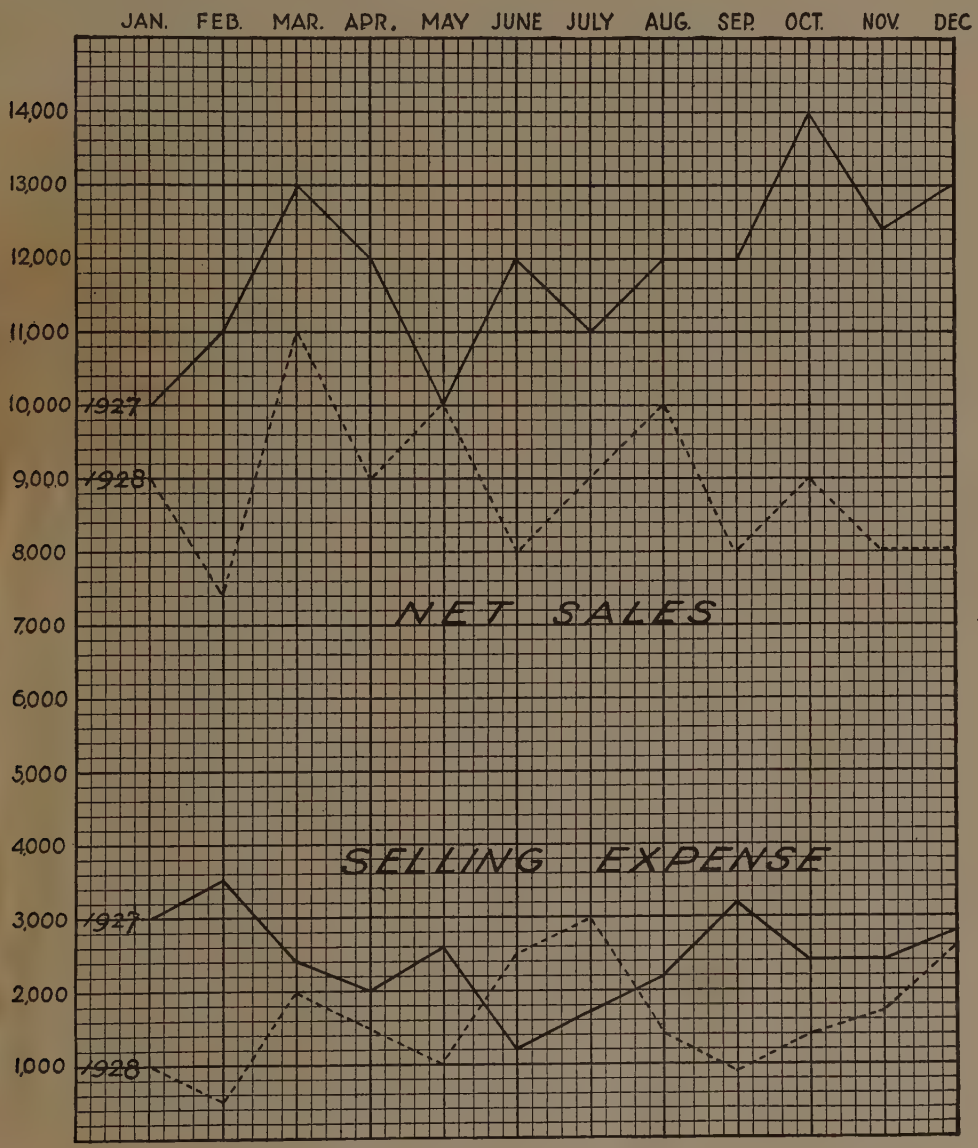


Illustration 101, Curved Graph

A Circular Graph is used for presenting figures where a comparison is based on $1.00 or 100%. Thus, when a merchant receives $1.00 for a sale,

he knows that this dollar must include the cost of the merchandise, the selling expense, the general expense, and his profit; each cost or expense is regarded as a per cent of the selling cost.

The two circular graphs in Illustration 102 show the method of presenting cost and expenses based on selling price for two consecutive years.

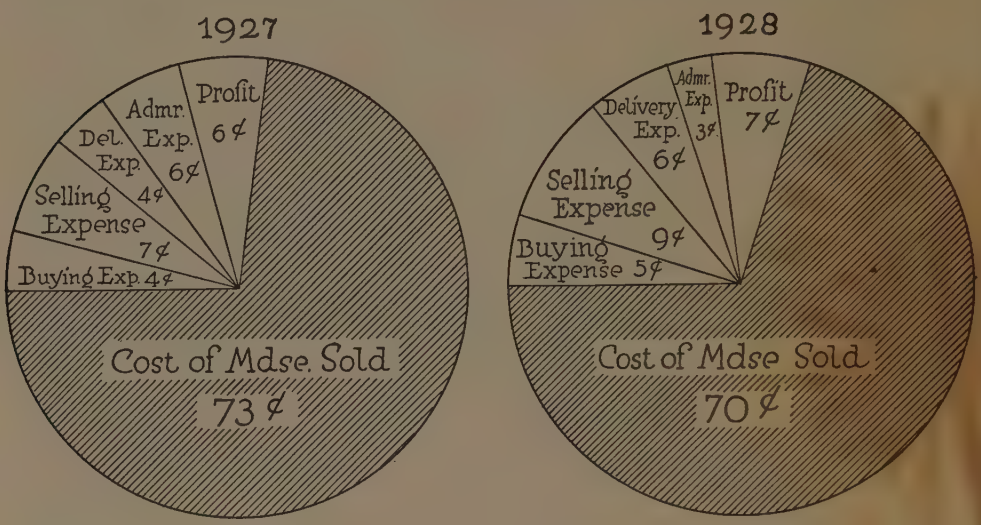


Illustration 102, Circular Graphs

Percentages are often used to present a comparison of figures and are sometimes even more comprehensive than the graphs or the figures themselves. All accounting facts presented in percentage form should be calculated on the same base, and must be figured accurately if they are to be of value. If some percentages are based on sales and others on cost of sales, no comparisons can be made. In business, it is customary to use the selling price as the basis in figuring percentages. The base used should always be stated.

When percentages are used to emphasize facts on a Balance Sheet or Profit and Loss Statement they are usually shown in a separate column on each report. Percentages are usually used to show the relation of facts on each report prepared at the close of the fiscal period. When used to state the facts resulting from a comparison of two or more consecutive fiscal periods, it is usually necessary to restate the figures showing these facts and base the percentage on this statement.

Illustration 103 shows the Profit and Loss Statement for the latter half of the year as illustrated in comparative form on page 476 with the percentages stated in the column at the right; each rate per cent is based on net sales. The circular graph at the right in Illustration 102 shows the costs and profit in

each dollar of sales based on the percentages shown in the statement in Illustration 103. From the detailed information in these reports, the management can determine if any of the costs are out of proportion to the sales and the income therefrom. These percentages are also of value in comparing costs and profits for consecutive periods, since it is much more simple to interpret the information if the figures are expressed in percentage form.

THE HALL HARDWARE COMPANY

PROFIT AND LOSS STATEMENT FOR SEMI-ANNUAL FISCAL PERIOD ENDING December 31, 19...

			% of Net Sales
INCOME FROM SALES:			
Gross Sales		145000 —	103
Less Sales Returns and Allowances		4000 —	3
Net Income from Sales		141000 —	100
COST OF GOODS SOLD:			
Inventory, June 30, 192	14079 60		10
Purchases	89246 40		63
Freight and Drayage In	14874 40		10
Total Purchases Cost	118200 40		83
Less Inventory, December 31, 192	18990 40		13
Net Cost of Goods Sold		99210 —	70
Gross Profit on Sales		41790 —	30
OPERATING EXPENSES:			
Buying Expense	6525 —		5
Selling Expense	13050 —		9
Delivery Expense	8700 —		6
Administrative Expense	4350 —		3
Total Operating Expenses		32625 —	23
Net Profit from Operations		9165 —	7
OTHER INCOME:			
Interest Earned	50 —		0.4
Purchases Discount	850 —		0.6
Total Other Income		1500 —	1
Gross Income		10665 —	8
DEDUCTIONS FROM INCOME:			
Interest Cost	100 —		0.1
Sales Discount	1000 —		0.7
Total Deductions from Income		1100 —	0.8
Net Income Carried to Surplus		9565 —	7

Illustration 103, Profit and Loss Statement with Percentages

Exercise 170, Comparative Reports

(ORAL OR WRITTEN)

THE WATSON HOME FURNISHING CORPORATION

COMPARATIVE BALANCE SHEETS FOR TWO SUCCEEDING FISCAL PERIODS OF TWELVE MONTHS EACH

ASSETS	Dec. 31, 1927		Dec. 31, 1928	
Current Assets:				
Cash		8,752 20		12,607 10
Notes Receivable		1,600 —		600 —
Accounts Receivable	5,115 50		20,125 —	
Less Reserve for Bad Debts	100 —	5,015 50	100 —	20,025 —
Merchandise Inventory		15,000 —		30,000 —
Total Current Assets		30,367 70		63,232 10
Fixed Assets:				
Office Equipment	3,250 —		3,250 —	
Less Depreciation Reserve	212 50	3,037 50	265 —	2,985 —
Delivery Equipment	4,500 —		4,500 —	
Less Depreciation Reserve	450 —	4,050 —	500 —	4,000 —
Building	12,000 —		12,000 —	
Less Depreciation Reserve	250 —	11,750 —	550 —	11,550 —
Land		4,000 —		4,000 —
Total Fixed Assets		22,837 50		22,535 —
Goodwill		25,000 —		25,000 —
Total Assets		78,205 20		110,767 10
LIABILITIES AND PROPRIETORSHIP				
Current Liabilities:				
Notes Payable—Bank	2,500 —		7,500 —	
Notes Payable—Creditors	2,000 —		20,000 —	
Accounts Payable	12,000 —		31,000 —	
Accruals	150 —		1,900 —	
Total Current Liabilities		16,650 —		60,400 —
Proprietorship:				
Capital Stock	50,000 —		50,000 —	
Surplus	11,555 20		367 10	
Total Proprietorship		61,555 20		50,367 10
Total Liabilities and Proprietorship		78,205 20		110,767 10

1. Is the change in the asset cash from $8,752.20 to $12,607.10 indicative of a favorable or unfavorable condition? Why?

2. Does the change in notes receivable indicate a favorable or unfavorable condition? Why?

3. (a) Does the increase in the asset accounts receivable indicate a favorable or an unfavorable condition? (b) Do you consider the reserve for bad debts to be reasonable for each of the two years?

4. (a) Is the increase in the asset merchandise inventory indicative of a favorable or unfavorable condition if the sales for 1927 are approximately the same as for 1928? (b) Is this information of importance in judging whether or not the change in the inventory is favorable?

5. The fixed assets have been depreciated for one year's additional use. Does the amount of depreciation seem to be reasonable in each case?

6. Do the changes in notes payable-bank, notes payable-creditors, and accounts payable represent favorable or unfavorable conditions?

7. (a) What is the ratio of the current assets to the current liabilities in each Balance Sheet? (b) Which ratio is the more favorable? (c) In the second Balance Sheet, the current assets are about $3,000.00 greater than the current liabilities. Is this satisfactory? (d) Why?

8. (a) What is the probable cause of the change in the surplus from $11,555.20 to $367.10? (b) Does this indicate a favorable or an unfavorable condition?

Exercise 171, Comparative Reports

The account balances below appear on the ledger of the Hall Mercantile Company after the adjusting entries have been posted at the close of a semi-annual period ending June 30. The fiscal period directly follows the one for the Balance Sheet of December 31 which was given on page 474.

Cash	$ 29,819.10
Notes Receivable	3,800.00
Accounts Receivable	36,800.00
Reserve for Doubtful Accts. Rec.	294.00
Office Equipment	1,750.00
Res. for Dep. of Office Equipment	212.50
Store Fixtures	4,000.00
Res. for Dep. of Store Fixtures	600.00
Delivery Equipment	4,500.00
Res. for Dep. of Delivery Equipment	1,350.00
Buildings	25,000.00
Res. for Dep. of Buildings	1,125.00
Land	15,000.00
Goodwill	15,000.00
Notes Payable—Bank	5,000.00
Notes Payable—Creditors	1,500.00
Accounts Payable	54,650.00
Mortgage Payable	10,000.00
Capital Stock	50,000.00
Surplus	15,489.00
Sales	207,000.00
Sales Returns and Allowances	3,500.00
December Inventory	18,990.40
Purchases	140,000.00
Freight and Drayage In	13,000.00
Buying Expense	5,125.00
Selling Expense	16,923.50
Delivery Expense	9,625.00
Administrative Expense	4,637.50
Interest Earned	820.00
Purchase Discount	1,000.00
Interest Cost	660.00
Sales Discount	1,150.00
Donations	100.00
June Inventory	15,754.90
Accrued Interest Earned	70.00
Accrued Wages	775.00
Accrued Interest Cost	60.00
Deferred Assets	425.00

Instructions. (1) Prepare a Balance Sheet as of June 30 in comparative form using the Balance Sheet of June 30 of the previous year; show your work

in the same form as the illustration on page 474, showing increases in black ink and decreases in red ink.

(2) Prepare a Profit and Loss Statement as of June 30 in comparative form using the Profit and Loss Statement of June 30 of the previous year; show your work in the same form as the illustration on page 476, showing increases in black ink and decreases in red ink.

(3) Prepare a bar graph similar in form to Illustration 100, showing a comparison of net sales and selling expenses for the two fiscal periods.

(4) Prepare a Profit and Loss Statement showing the percentage based on net sales, similar in form to the illustration on page 481.

(5) Prepare a circular graph similar to the illustration on page 480; the percentages in the Profit and Loss Statement required in (4) above may be used as a basis for the preparation of this circular graph.

Exercise 172, Distribution of Profit

The Kroger Grocery Company is incorporated with a capital stock of $200,000.00—$100,000.00 preferred, and $100,000.00 common; $90,000.00 of the preferred and $85,000.00 of the common has been issued. The preferred stock pays a dividend of eight per cent. The Surplus account at the close of the fiscal period, December 31, shows a balance of $22,500.00. It is decided to declare a dividend of eight per cent on the outstanding preferred stock and ten per cent on the outstanding common stock, and to transfer to a Sinking Fund Reserve account $5,000.00 to provide for bonds which will mature in the future.

Instructions. Make in journal form the entries necessary to record the dividends and the sinking fund reserve.

Exercise 173, Stock Dividend

At the close of business, December 31, the Capital Stock account of the Allen Manufacturing Co. shows a credit balance of $300,000.00, and the Unissued Capital Stock account, a debit balance of $100,000.00; the Surplus account shows a credit balance of $162,500.00. A stock dividend of fifty per cent of the outstanding stock is declared by the board of directors and the stock issued December 31.

Instructions. Make in journal form the entries necessary to record this stock dividend.

Exercise 174, Reduction of Capital Stock

The Johnson Printing Co. is incorporated with a capital stock of $50,000.00, consisting of five hundred shares, par value $100.00 each. At the close of the fiscal period, December 31, the stockholders vote to reduce the capital stock from $50,000.00 to $40,000.00 and each stockholder surrenders his proportionate number of shares to secure this reduction. A check is issued to each stockholder for the par value of his stock.

Instructions. Record in journal form in one amount the entry to record the cash paid the stockholders for the stock surrendered.

ALPHABETICAL INDEX

	Page
A. B. A. Numbers	185
Abstract of Accounts Payable Ledger	310
Abstract of Accounts Receivable Ledger	310
Account	8, 35
Accounts for Departmental Purchases and Sales	461
Accounts Payable	60
Accounts Payable Control	298, 311
Accounts Receivable	48
Accounts Receivable Control	296, 311
Accounts Required for Recording Purchases	265
Accounts Required for Recording Sales	269
Accounts with Each Consignment Out	364
Accounts with Traveling Salesmen	429
Accruals	341
Accrued Expense	335, 338, 340
Accrued Expense Accounts	341
Accrued Income	332
Accrued Income at the Close of the Fiscal Period	334
Accrued Interest on Notes Payable	335
Accrued Interest on Notes Receivable Account	341
Accrued Interest, Payment of	336
Accrued Property Tax	339, 340
Accrued Salaries or Wages	336, 338
Adjusting Entries	104, 138, 238, 351, 437
Adjusting Purchases Account	98
Adjusting Supplies Account	141
Adjustment for Expired Insurance	317
Adjustment of Prepaid Interest on Notes Payable Account	319
Adjustments for Accrued Income and Expenses	340
Admission of a Partner	257
Advertising Material Account	140
Allen Practice Set (No. 1)	109
Analysis of Proprietorship	93, 236
Arrangement of Accounts	39, 160–166
Articles of Copartnership	248, 249
Ascertaining Net Profit	11, 18, 25, 41, 51, 89
Ascertaining Proprietorship	11, 18, 25, 41, 51, 63, 73, 89
Assets	3, 247
Authorized Capital Stock	409
Avoiding Errors	189
Bad Debts	328
Bad Debts Collected Account	330
Balance of An Account	11
Balance Sheet	86, 90, 168, 236, 346, 436, 470
Balancing an Account	107
Balancing the Pass Book	180
Banking	175
Bank Draft	182
Bank's Record with a Depositor	178
Bank Statement	179
Bar Graph	477
Bill	174
Bill of Lading	263
Bonds	412
Bonds Payable Account	413
Bookkeeper	153
Bookkeeping	153
Book of Original Entry	29
Books of Account	254
Borrowing Money from the Bank	200, 213
Branch Store Account	432
Building Account	449
Building Expense Account	450
Building Repairs Account	449
Building Revenue	449
Building Revenue Account	450
Burden	452
Burden Accounts	459
Business Forms	75, 173
Business Transactions	3
Buying Merchandise	261
Canceled Check	184
Canceled Insurance	316
Capital	70
Capital Account	70, 73, 258
Capital Stock Account	410
Capital Stock Subscribed Account	412
Capital Surplus Account	416
Cash Account	42
Cash Book	131, 158, 303
Cash Discount	222
Cash Items	181
Cash Journal	419
Cash Over and Short	132
Cash Payments Journal	127, 368
Cash Proof	131, 228, 422
Cash Purchases	15
Cash Receipts Journal	124, 368
Cash Sales	15
Cashier's Check	182
Characteristics of a Corporation	376
Charge Customer	47
Charge Customer's Account	56
Charge Sale	47
Charter	374
Check	76, 77, 181
Check Book	177
Checking the Posting	189
Check Marks	194
Check Register	178
Circular Graph	479
Classification of Accounts	170, 240, 357, 441
Classification of Stock	378
Closing Entries	97, 104, 138, 239, 351, 397 438
Closing Expense Account	100
Closing Profit and Loss Summary Account	101
Closing Purchases Account	99
Closing Sales Account	98
Closing the Ledger	97
Closing the Ledger of a Going Concern	394
C. O. D. Freight Shipment	283
C. O. D. Sales	283
Collecting Accrued Interest	333
Collecting Notes Receivable	202
Collection Charges	203
Collection Expense Account	204

	Page
Collection of a Bad Debt	329
Columnar Cash Book	227, 230, 466
Columnar Purchases Journal	463
Columnar Purchases Returns and Allowances Journal	463
Columnar Return Sales Journal	465
Columnar Sales Journal	464
Commercial Drafts	275
Commission Income Account	371
Common Stock	378
Comparative Balance Sheets	473
Comparative Profit and Loss Statements	475
Consignment	361, 370
Consignment In Account	367, 371
Consignment Out Account	371
Consignment Sales Account	371
Contingent Liabilities	293, 294
Control Accounts	299, 310
Copartnership, Articles of	248, 249
Corporate Accounts	409
Corporation	373
Correcting Entries	137
Correcting Errors	160, 190, 194
Cost	170
Cost of Sales	349
Credit	10, 26, 33, 67, 73
Credit Memorandum	265
Creditor	60
Creditor's Account	67
Current Assets	346
Current Entries	136
Curved Graph	479
Customer	47
Daily Posting from the Cash Journal	422
Daily Posting from the General Journal	307
Daily Posting from the Purchases Journal	301
Daily Posting from the Sales Journal	303
Daily Posting of Cash Payments	307
Daily Posting of Cash Receipts	306
Debit	10, 26, 33, 67, 73
Decreases in Proprietorship	21
Deductions from Income	349
Deferred Assets	346
Deferred Charges	313, 320
Deferred Credits to Income	319
Departmental Expenses	468
Departmental Sales	461
Departmental Transactions	462
Deposit Ticket	175
Depositor's Record	178
Depreciation	148, 322, 330
Depreciation Expense Account	150
Depreciation on Building Account	450
Depreciation Reserve Account	150
Depreciation Reserve for Building Account	449
Detecting Errors in Trial Balance	193
Discarded Fixed Assets	327
Discount	213
Discounting a Note	213, 290
Dishonored Note	207
Disposition of Fixed Assets	326
Dividend Payable Account	411
Dividends	410
Donated Treasury Stock	414
Donated Treasury Stock Account	416
Draft	275
Drawing Account	73, 258
Drawings by Each Partner	255
Entry for Common and Preferred Stock	387
Equipment	147
Equipment Account	150
Erasures	190
Exchange of Fixed Assets	327
Expenditures, Capital and Revenue	326
Expense	21
Expense Account	43, 150
Expenses in Connection with Fixed Assets	325
Expired Insurance	144
Expired Insurance Account	145
Express Money Order, *see* Money Orders	
Face of a Note	53
Factory Cost	453, 458
Federal Reserve Bank	185
Finished Goods Account	459
Fiscal Period	86, 233
Fixed Assets	322, 329, 346
Fixed Asset Register	323, 329
Freight Bill	264
Freight In Account	272
Freight Out	268
Freight Out Account	273
French Practice Set (No. 3)	241
Fully Depreciated Fixed Assets	327
General Expenses	349
General Journal	135, 155, 307, 308, 368, 467
General Ledger Trial Balance	309
Good Practice Set (No. 2)	188
Goodwill	394
Goodwill Account	413
Graph	477
Income	15
Income Accounts	15, 170, 240
Incorporating a Going Business	392
Increases in Proprietorship	15
Indexing a Ledger	160
Indorsement of Checks	183
Indorsement of Notes	206
Insurance	144, 315
Insurance Policy Register	316
Interest	212
Interest-bearing Note	200
Interest Calculations	219, 220
Interest Expense Account	220
Interest Included in a Note	214, 217
Interest Income	216
Interest Income Account	220
Interest on Accounts Payable	213
Interest on Accounts Receivable	217
Interest on Daily Bank Balance	216
Interest on Mortgage Payable Account	450
Interest on Notes Payable	212
Interest on Notes Receivable	216
Inventory of Consignment Out	364
Investments	70
Invoice	75, 173, 262

	Page
Journal	29, 32, 38, 79, 80, 135
Journalizing	30
Journals for Departmental Purchases and Sales	462
Journal Voucher	428
Labor	452
Labor Account	458
Land Account	449
Lease	448
Ledger	35, 39, 81, 82, 161, 368
Ledger Closed	105–107
Legal Rate of Interest	201
Liability	59, 346
Liabilities and Proprietorship	59
Liquidation Value	380
Loss on Bad Debts Account	330
Maintenance of Real Estate	444
Manufacturing	452
Manufacturing Process	453, 458
Market Price	266
Materials	452
Materials Account	458
Materials in Process Account	458
Maturity Value of a Note	53
Merchandise Inventory	17, 86, 87
Merchandise Inventory Account	272
Merchandise Withdrawn by Proprietor	70
Method of Showing Comparative Facts	477
Method of Showing Proprietorship on the Balance Sheet	380
Minute Book	401
Model Set	153, 170
Money Orders	183
Monthly Posting from the Cash Journal	423
Mortgage Payable	450
Net Profit	349
Non-interest-bearing Note	200
Non-operating Income	349
No Par Value Stock	379
Note	53
Notes Payable	65, 78, 197
Notes Payable Account	67
Notes Payable Journal	426
Notes Payable Register	209
Notes Receivable	53, 78, 197, 287
Notes Receivable Account	56
Notes Receivable Journal	425
Notes Receivable Register	208, 289
Note Received at Less than Face Value	287
Note Received at More than Face Value	288
Office Supplies Account	140
Opening an Account in the Ledger	36
Opening a New Ledger	159
Opening Entries	135, 153, 250, 384, 388
Operating Cost	21
Operating Income	349
Operation of a Partnership	254
Order	262
Organization Expense	413
Organization Expense Account	413
Organization of a Corporation	373
Partial Payments on Account	160
Partial Payments on Note	206
Partners, Relationship between	248
Partnership	247
Partnership Agreement	258
Partners Salaries Account	258
Pass Book	176, 180
Payments of Accrued Expenses	339
Percentages	480
Petty Cash Book	429
Petty Cash Fund	369
Position of Indorsements	183
Postage and Parcel Post Insurance Acct.	311
Postal Money Orders, *see* Money Orders	
Post-closing Trial Balance	107, 169, 240, 356
Posting Cash Payments	129, 307
Posting Cash Receipts	125, 306
Posting from the Cash Book	131
Posting from the Columnar Cash Book.	230
Posting from the General Journal	135, 309
Posting from the Journal	36, 38
Posting from the Purchases Journal,	117, 301, 423, 463
Posting from the Purchases Returns and Allowances Journal	464
Posting from the Return Sales Journal.	466
Posting from the Sales Journal	120, 303, 425, 465
Posting the Notes Payable Journal	428
Posting the Notes Receivable Journal	425
Posting to the Wrong Account	191
Practice Set No. 1	109
Practice Set No. 2	188
Practice Set No. 3	241
Practice Set No. 4	312
Practice Set No. 5	430
Preferred Stock	378
Prepaid Insurance	144
Prepaid Insurance Account	145
Prepaid Interest on Notes Payable	318
Prepaid Interest on Notes Payable Acct.	320
Prepaid Transportation Charges	269
Present Value	287
Prime Cost	452
Profit	3
Profit and Loss Statement	92, 169, 237, 349, 436, 470
Profit and Loss Summary	106, 166, 239
Promissory Note	197
Property Rights	3
Proprietary Interest of a Stockholder	379
Proprietor's Capital Account	42, 70, 73
Proprietor's Drawing Account	70, 73
Proprietorship	3, 59, 247, 348
Proprietorship in a Corporation	377
Proprietorship of Each Partner	256
Proving Cash	131
Protest	185
Purchase Invoice	75, 173, 262
Purchase of Real Estate	444
Purchases Account	43, 272
Purchases Discount	222
Purchases Discount Account	230
Purchases Journal	115, 157, 300, 423
Purchases Returns and Allowances	265
Purchases Returns and Allowances Acct.	272
Purpose of a Corporation	373
Purpose of Bookkeeping	1, 2
Purpose of Investments	183

	Page
Real Estate	444
Real Estate Taxes Account	450
Reason for Consignments	361
Receipt	75, 77, 174
Reconciliation of Bank Account	179
Recording Accrued Expenses	338
Recording Accrued Income	332
Recording Accrued Interest Expense	335
Recording Accrued Wages	337
Recording a Bad Debt	329
Recording Authorized Capital	384
Recording Cash Payments	128
Recording Cash Receipts	124
Recording Charge Sales	48, 267
Recording C. O. D. Purchases	284
Recording C. O. D. Sales, Method of	284
Recording Depreciation	148, 324
Recording Expired Insurance	317
Recording Fixed Assets	322
Recording Note Payable	65
Recording Note Receivable	53
Recording Purchases on Credit	60
Recording Stock Issued for Assets Invested	384
Recording Supplies Expense	141, 313
Recording Supplies Purchased	313
Recording Transactions	4, 8, 26, 30, 254
Recording Transactions for Accounts Payable Control	298
Recording Transactions for Accounts Receivable Control	296
Recording Transactions in the Cash Journal	420
Recording Transactions with Proprietor	71
Recording Transactions with Subscribers	403
Record of Drafts by the Drawee	282
Records for a Corporation	401
Records for Petty Cash Fund	369
Relation of Consignor and Consignee	361
Renewal of a Note Payable	205
Renewal of a Note Receivable	204
Rent Expense Account	21
Reports	88
Requisition	261
Reserve for Bad Debts	328
Reserve for Bad Debts Account	330
Retirement of a Partner	257
Ruling a Customer's Account	55, 56
Ruling a Creditor's Account	67
Ruling Profit and Loss Accounts	106
Ruling the Cash Book	132
Salaries of Partners	255
Salary Expense Account	21
Sale of Fixed Assets	327
Sale of Real Estate	447
Sale of Stock at a Premium	395
Sales Account	42, 273
Sales Discount	225
Sales Discount Account	230
Sale for Cash and Credit	54
Sales Invoice	174
Sales Journal	119, 157, 302, 367, 424
Sales Ticket	76
Sales of Merchandise	267
Sales on Credit	47
Sales Returns and Allowances	267
Sales Returns and Allowances Account	273
Scrap Value	323
Securities	443
Selling Expenses	349
Shipping Supplies Account	140
Signature Card	176
Special Journals	115
Special Profits and Losses	237
Statement of Account	83
Stock Certificate	377
Stock Certificate Book	403
Stockholders Ledger	405
Stock Transfer Book	405
Store Supplies Account	140
Subscribers Ledger	403
Subscription Book	402
Subscriptions on the Deferred Payment Plan	385
Subscriptions Receivable	411
Subscriptions Receivable Account	412
Summarizing Trading Accounts	271
Supplies	140
Supplies Account	142
Supplies Used Account	142
Surplus	396, 410
Surplus Account	411
Terms on Invoices	222
Time Draft	279
To the Student	1
Trade Acceptance	281
Trading Accounts	270, 273
Trading, Profit and Loss Summary Account	355, 471
Trading Statement	270
Transaction	3
Transactions completed by the Consignee	364
Transactions completed by the Consignor	361
Transactions with Partners	255
Transfer of an Interest-bearing Note	293
Transferring a Note Receivable	292
Treasury Stock	414
Treasury Stock Account	415
Trial Balance, 39, 40, 50, 63, 73, 83, 118, 127, 297, 299,	431
Trial Balance In Balance	193
Trial Balance Out of Balance	41, 193
Turnover	475
Unissued Capital Stock Account	410
Unit Cost	458
Valuation Account	170
Values of a Note Receivable	287
Values of Stock	380
Verifying Extensions	189
Vouchers, *see* Business Forms	
Withdrawals	70
Withdrawals from Capital	256
Withdrawing Money from the Bank	176
Working Sheet	89, 167, 234, 345, 347, 432
Work in Process Account	459
Work Required at Close of Period	160, 233

LIST OF ILLUSTRATIONS

No.		Page
1	Journal Ruling	29
2	Journal Before Posting	32
3	Ledger Ruling	35
4	Journal After Posting	38
5	Ledger	39
6	Trial Balance of Totals	40
7	Trial Balance of Balances	40
8	Journal (2 pages)	79, 80
9	Ledger (2 pages)	81, 82
10	Trial Balance	83
11	Inventory	87
12	Working Sheet	89
13	Balance Sheet (account form)	91
14	Balance Sheet (report form)	91
15	Profit and Loss Statement	92
16	Adjusting and Closing Entries	104
17	Ledger Closed (3 pages)	105, 106, 107
18	Post-closing Trial Balance	107
19	Purchases Journal	116
20	Sales Journal	120
21	Cash Receipts Journal	125
22	Cash Payments Journal	129
23	Cash Book (2 pages)	132, 133
24	General Journal (2 pages)	155, 156
25	Purchases Journal	157
26	Sales Journal (2 pages)	157, 158
27	Cash Book (2 pages)	158, 159
28	Ledger (6 pages)	161–166
29	Working Sheet	167
30	Balance Sheet	168
31	Profit and Loss Statement	169
32	Post-closing Trial Balance	170
33	Purchases Invoice	173
34	Sales Invoice	174
35	Receipted Bill	174
36	Deposit Ticket	175
37	Signature Card	176
38	Check Book	177
39	Check Register	178
40	Bank Statement	179
41	Pass Book	180
42	Bank Check, Special Form	181
43	Bank Check, Draft Form	181
44	Bank Draft	182
45	Cashier's Check	182
46	Note	197
47	Notes Receivable Register	208, 209
48	Notes Payable Register	208, 209
49	Columnar Cash Book (2 pages)	228, 229
50	Working Sheet	234
51	Balance Sheet	236
52	Profit and Loss Statement	237
53	Adjusting Entries	238
54	Closing Entries	239
55	Articles of Copartnership	249
56	Purchases Journal	301
57	Sales Journal	302
58	Cash Receipts	304
59	Cash Payments	305
60	General Journal	308
61	Insurance Policy Register	316
62	Fixed Asset Register	324
63	Working Sheet	347
64	Balance Sheet	348
65	Profit and Loss Statement	350
66	Adjusting Entries	352
67	Closing Entries	353, 354
68	Post-closing Trial Balance	356
69	Invoice of Shipment	362
70	Account Sales	363
71	Petty Cash Book	370
72	Charter	375
73	Stock Certificate	404
74	Back of Stock Certificate	404
75	Stockholders Ledger	405
76	Stock Transfer Book	406
77	Cash Journal	420, 421
78	Purchases Journal	423
79	Sales Journal	424
80	Notes Receivable Journal	426, 427
81	Notes Payable Journal	426, 427
82	Journal Voucher	428
83	Petty Cash Book	429
84	Working Sheet	433
85	Balance Sheet	434
86	Profit and Loss Statement	435
87	Adjusting Entries	437, 438
88	Closing Entries	439, 440
89	Manufacturing Statement	456
90	Columnar Purchases Journal	463
91	Purchases Returns and Allowances Journal	464
92	Columnar Sales Journal	465
93	Return Sales Journal	466
94	Balance Sheet	470
95	Profit and Loss Statement	471
96	Comparative Balance Sheet	474
97	Comparative Profit and Loss Statement	476
98	Horizontal Bar Graph	477
99	Vertical Bar Graph	478
100	Vertical Bar Graph	478
101	Curved Graph	479
102	Circular Graph	480
103	Profit and Loss Statement with Percentages	481

LIST OF EXERCISES

No.	Page
*1**	6
2	7
3	7
4	12
5	13
6	14
7	14
8	19
9	20
10	20
11	21
12	26
13	28
14	28
15	33
16	34
17	34
18	34
19	43
20	44
21	44
22	46
23	51
24	52
25	56
26	57
27	58
28	63
29	64
30	68
31	69
32	69
33	73
34	74
35	74
36	84
37	84
38	85
39	87
40	88
41	94
42	95
43	96
44	96
45	102
46	108
47	114
48	118
49	118
50	122
51	123
52	123
53	127
54	130
55	132
56	134
57	134
58	138
59	139
60	139
61	142
62	146
63	151
64	152
65	152
66	171
67	172
68	186
69	187
70	188
71	192
72	195
73	196
74	201
75	209
76	210
77	211
78	214
79	215
80	215
81	218
82	218
83	219
84	220
85	221
86	224
87	226
88	230
89	231
90	231
91	232
92	246
93	252
94	253
95	253
96	259
97	259
98	260
99	266
100	273
101	274
102	274
103	279
104	282
105	285
106	285
107	286
108	289
109	294
110	295
111	295
112	297
113	299
114	311
115	312
116	312
117	314
118	318
119	320
120	321
121	321
122	326
123	328
124	330
125	331
126	331
127	334
128	342
129	342
130	343
131	358
132	359
133	360
134	366
135	367
136	371
137	372
138	381
139	382
140	383
141	390
142	391
143	391
144	391
145	397
146	398
147	399
148	399
149	400
150	406
151	407
152	416
153	418
154	418
155	430
156	430
157	442
158	442
159	442
160	443
161	450
162	451
163	451
164	459
165	460
166	460
167	468
168	471
169	472
170	482
171	483
172	484
173	484
174	484

*The numbers set in *italics* indicate *oral or written* exercises.